Accountancy

ESTABLISHED 1889

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English Institute Approves Integration

•

Dividends and Their Limitation

•

Compensation—Capital or Income?

THE SOCIETY OF INCORPORATED ACCOUNTANTS

APRIL 1957

TWO SHILLINGS

The Society

of

Incorporated Accountants

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Members use the designation Incorporated Accountant. Fellows may also use the initial letters F.S.A.A., and Associates A.S.A.A.

Admission to membership is by examination subject to satisfactory completion of articles of clerkship for five years (university graduates three years.) Six years' approved professional experience may be accepted in lieu of five years' articles. Exemption from the Preliminary Examination is granted on production of certain educational certificates.

Articles may also be integrated with full-time study at certain universities. Under this scheme a specific university degree and the professional qualification can be attained in a total period of 5¾ years.

All candidates must pass the Intermediate and Final Examinations, except that graduates under the universities scheme are exempted from the Society's Intermediate Examination.

There are Branches of the Society in Scotland, Ireland, Canada, Australia, South Africa and Central Africa, and District Societies in all parts of England and Wales, Northern Ireland, and India. Students' Societies and Students' Sections operate throughout Great Britain, Northern Ireland, and Eire.

Members of the Society are not allowed to seek professional business by advertisements or circulars.

British Tax Review

MARCH 1957

Articles

BRITISH TAX REVIEW

A New Quarterly for

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BUSINESS EXECUTIVES

. . . . . *and others concerned with the burden of tax*

THE NEED

There is clearly a growing need for a periodical of the highest quality in which problems of tax can be exhaustively examined not merely in the setting in which they arise but with due regard to their effects in related fields of taxation.

Taxation today is not merely onerous, it can be crippling. It pervades every transaction. It is also exceedingly complex and before decisions are taken the tax factor must be considered from many angles so that the relief in one direction may not attract additional tax in another.

Taxation breeds specialists and it is most necessary to consult them when occasion arises. But to do this at the right time and with economy requires a background knowledge of tax and its problems which is not easy for advisers and executives to acquire.

FUNCTIONS OF THE B.T.R.

The BRITISH TAX REVIEW has two main purposes:

First, to provide the necessary elbow-room in which a topic can be analysed with a view to drawing conclusions and suggesting future developments and applications.

Secondly, to provide a complete referencer to all current developments in the tax field gathered from all sources—cases, statutes, regulations, practice notes, statements by Ministers and Revenue departments—these are gathered together under the heading "Current Tax Intelligence" and arranged according to subject-matter.

In our judgment these objectives can best be achieved by a Quarterly, that is to say by publication at such measured intervals as will give the editors the time required for proper consideration of their material.

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What the Lawyers say—

'Not only is taxation a subject of special study by some lawyers and most accountants but, unfortunately, it has become so heavy, so complex and so all-pervading that there is scarcely a business transaction or legal problem into which it may not enter.

'This new venture . . . aims to be of use to the taxation expert, to the general practitioner who must know something of tax whether he likes it or not, to the practising lawyer and accountant alike and to the company director or secretary. To cover so wide a field effectively is not so easy but the first issue makes an admirable start. . . . If the standards of the first number, particularly its diversity, can be maintained —and there is no reason to suppose that it should not—your reviewer thinks this publication should have a bright future before it and he commends it.'—*The Solicitors' Journal*

What the Accountants say—

'We congratulate the editor, Mr. G. S. A. WHEATCROFT, and the publishers on the preparation of this excellent new work, which will undoubtedly prove of great value not only to members of the profession but also to all those concerned with all matters of taxation.'—*Accountants' Journal*

What the Businessmen say—

'It is primarily written for the practising accountant and lawyer. But its appeal is not limited to lawyers and accountants. The company director and secretary and other businessmen need a background knowledge of the principles of taxation. It is therefore claimed that to all these the articles and comments in this Review will provide a clear picture of the basic principles underlying British taxation.

'There is no doubt that so far as lawyers, accountants, bankers and secretaries are concerned, the Review will be of immense value, if the subsequent issues maintain the standard set in the first.'—*The Director*

And even the Greeks have a word for it—

'Τὸν παρελθόντα Ἰούνιον ἐξεδόθη τὸ πρῶτον τεῦχος τῆς λίαν ἀξιολόγου ταύτης «Φορολογικῆς Ἐπιθεωρήσεως», κατόπιν ἀναγνωρίσεως τοῦ γεγονότος τῆς τεραστίας σημασίας τὴν ὁποίαν ἔχει διὰ τὴν ρύθμισιν καὶ ποδηγεσίαν τῶν ἰδιωτικῶν οἰκονομικῶν ὑποθέσεων ἡ φορολογία. Τὸ τεῦχος διαιρεῖται εἰς πέντε τμήματα. Τὸ πρῶτον περιλαμβάνει ἄρθρα ἐπὶ τρεχόντων φορολογικῶ, ζητημάτων, τὸ δεύτερον μελετᾶ ζητήματα προϋπολογισμοῦ, τὸ τρίτον περιέχει σημειώματα ἐπὶ τῆς φορολογικῆς νομολογίας, τὸ τέταρτον διαλαμβάνει ἐπιθεώρησιν τῶν βιβλίων καὶ τὸ πέμπτον μελετᾶ τρέχοντα ἐπὶ μέρους φορολογικὰ ζητήματα. Τὸ περιοδικὸν κέκτηται πρωτίστως πρακτικὸν χαρακτῆρα καὶ ἀπευθύνεται εἰς τὸν πρακτικὸν λογιστὴν καὶ νομικὸν πρὸς τὸν σκοπὸν νὰ τοῦ παράσχῃ ὕλα τὰ ἀναγκαῖα στοιχεῖα ὁδηγίας καὶ διαφώτισιν, διὰ νὰ ἐξυπηρετήσῃ τοὺς πελάτας του. Ἐκ τῶν πολυαρίθμων ἄρθρων καὶ μελετῶν σημειοῦμεν τὸ τοῦ κ. Ἄλλαν Πῆκοκ ἐπὶ τῆς «Φορολογικῆς πολιτικῆς καὶ τοῦ προϋπολογισμοῦ». Ἡ ἔκδοσις αὕτη καλύπτει πράγματι ἓν κενόν.'

—*Epitheoresis Ellinekis Oikonomias*

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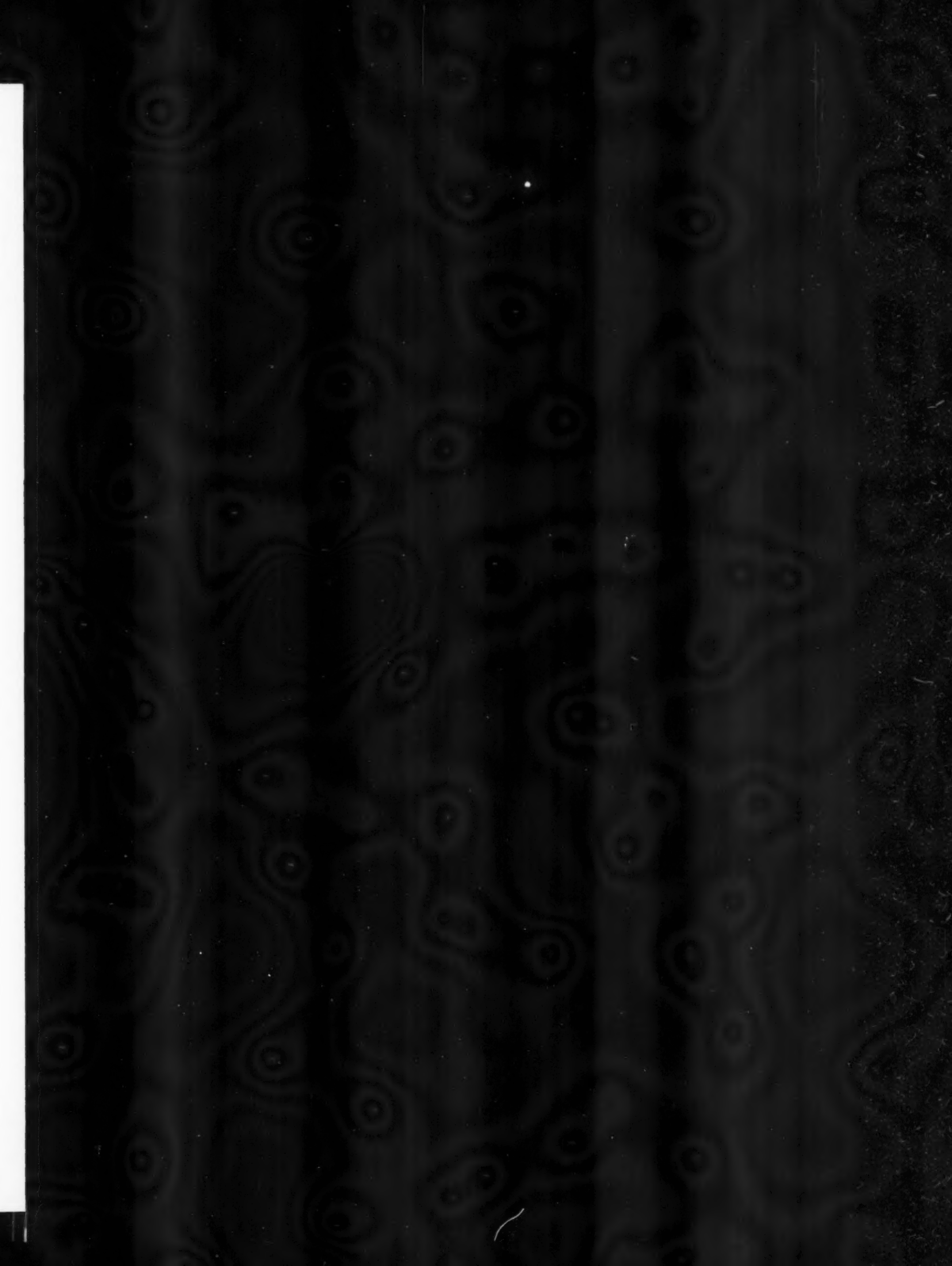

Accountancy

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL. ESTABLISHED 1889

VOL. LXVIII (VOL. 19 NEW SERIES) APRIL 1957 NUMBER 764

The Annual Subscription to ACCOUNTANCY *is £1 1s., which includes postage to all parts of the world. The price of a single copy is 2s., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.*

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Professional Notes

The English Institute Approves Integration

IN FAVOUR, 10,242 votes; against, 4,340 votes. On its postal vote the Institute of Chartered Accountants in England and Wales has thus passed the scheme to integrate the Society of Incorporated Accountants with the Institute. About 4,500 members did not vote. A majority of 66⅔ per cent. was required; the majority was 70·2 per cent. It is indeed satisfactory that with this favourable vote by the members of the English Institute the first main step has been taken towards carrying into effect the integration scheme. The members in taking the step have been wise and far-sighted, and are to be applauded. The confirmatory meeting to amend the supplemental Royal Charter will be held on April 17.

We have pleasure, too, in announcing that at meetings of the Institute of Chartered Accountants of Scotland and of the Institute of Chartered Accountants in Ireland, held at the end of March, the voting by a show of hands was favourable to the schemes of integration. At the Scottish Institute, the voting was 163 in favour and 25 against; at the Irish Institute, it was 48 in favour and 17 against. The majorities were thus 86·7 per cent. and 73·8 per cent. Both Institutes are now to take a postal vote and it is this vote that will be effective—the majorities required to pass the schemes are 66⅔ per cent. in the Scottish Institute and a simple majority in the Irish Institute.

The extraordinary general meeting of the Society of Incorporated Accountants to consider the integration schemes will be held on a date to be announced. A vote will be taken at the meeting but will be followed by a postal vote, which will be the effective one. It will be for the members of the Society to show by their votes that they too regard integration with the Chartered Institutes as the course of wisdom and foresight.

Meetings under the auspices of the District Societies of Incorporated Accountants are to be held at more than thirty places in the United Kingdom, to explain points of difficulty and to answer questions that members may wish to ask about the schemes. Members will be notified of these meetings by the Honorary Secretaries of District Societies.

The Society's Annual Meeting

THE SOCIETY OF Incorporated Accountants will hold its seventy-second annual general meeting at Incorporated Accountants' Hall, London, W.C.2, at 2.30 p.m. on Wednesday, May 15. The chair will be taken by the President of the Society, Sir Richard Yeabsley, C.B.E. This meeting will be followed, at about 3.30 p.m., by the annual meeting of subscribers and donors to the Incorporated Accountants' Benevolent Fund, under the chairmanship of Sir Frederick Alban, C.B.E., President of the Fund.

Telling the Workers—

OF A TOTAL of 253 concerns approached in a recent investigation only three have given financial information to employees for as long as twenty years. Only 89 replied that they currently give information and 75 of these have done so for less than ten years. It is estimated that all told only 20 per cent. of businesses in this country give financial information. It is more usual for public companies to provide the information than for private companies to do so. Further, those of the public companies that are informative are large, rather than small. It is much more general in the United States than in this country for information to be given—for example, almost half of American companies distribute copies of their annual report to all employees.

The inquiry was made by the British Institute of Management and the findings are published in a book *Presenting Financial Information to Employees* (pp. ix+120, obtainable from Management House, 8 Hill Street, W.1, price 21s net).

A reading of the book confirms the impression that progress in informing workers of the financial facts of the businesses in which they work has been held up by an instinctive distrust on the part of the workers of anything inspired at managerial level—and, of no less significance, by an appreciation on the part of management of this distrust as an excuse for saving time and money by doing nothing to try to improve relationships. Fortunately, the attitude on both sides is now gradually changing. There is coming a sort of twilight state in which managements recognise that something has to be done but go to little trouble to ensure that what they are doing is appreciated by the employees or has any real value. Admittedly, it is difficult to know how any efforts of this kind are being received by employees—one of the reasons why an independent survey such as that of the British Institute of Management is very useful. The point is emphasised in a memorandum to the Institute from the Trades Union Congress, stating that "the formal provision of documentary financial information is inadequate unless associated with a readiness—and preferably a wish—to discuss it."

It is illuminating to find that on the whole employees are more interested in trade prospects than they are in profits. Here is a revealing state of affairs, underlining a fundamental truth: that all accounting has a historical basis, whereas wages are tied to future conditions. The consideration is not always appreciated to the extent that it ought to be amongst shareholders.

—And Methods of Telling Them

SOME EMPLOYERS place the emphasis in providing information upon items that are likely to make the workers cost-conscious. The most pertinent thread running through the methods adopted, however, is that most concerns try to get away from the traditional accounting presentation and use diagrams, photographs and other devices to make the meaning of the figures clear to the layman. One thing emerges clearly. It is of paramount importance that the facts should not be misrepresented or distorted, as inadvertently they may be if simplified and diagrammatic methods of imparting the information are used without great care.

Many of the detailed statistical entries are revealing in the extreme and so, it must be said, are some of the statements made: "Many employees commented that they did not understand what a sales £1 was." The overriding conclusion is that, whereas employees have a natural inclination for absorbing information that impinges directly upon their own fortunes, as by affecting the wages prospect, they lack the native interest readily to absorb financial information. To dress up the information in "popular" form is not always the success that many managements assume it to be. There is, as the survey amply shows, the ever-present risk that one form of confusion will be substituted for another. The British Institute of Management had performed an important work in giving many of the facts: what is now needed is a more positive approach to the problem, providing advice and recommendations. In this further task, surely, the accountancy profession should play a central part.

Discipline in American Accountancy—

PROFESSIONAL DISCIPLINE IN accountancy has developed in complicated fashion in the United States. The laws of thirty-two of the States impose enforceable rules of conduct on Certified Public Accountants and in nineteen of these States no public accountant may practise without a licence. The Securities and Exchange Commission has issued rules bearing on the independence of accountants who report on the financial statements of enterprises corresponding to our public companies and the Treasury Department has laid down rules of conduct applicable to all persons (including all lawyers and Certified Public Accountants and some other agents) who are admitted to practice before it.

The story of this complicated development is clearly told by the Joint Secretary of the American Institute of Accountants in a new book.* British accountants will

**Professional Ethics of Certified Public Accountants.* By John L. Carey. Pp. xx+233 (American Institute of Accountants, 270 Madison Avenue, New York 16, New York: Cloth, $4; Paper $3.)

enjoy this absorbing account of the forward striving of American accountancy and of its hard disciplined thinking.

In contrast with the American experience, the task of the profession in this country in building up a code of conduct has been simpler, partly because the formative years were passed in an earlier period in which initiative was expected not from governments but from free associations of individuals, such as the Society and the Institutes. It is natural, therefore, that the early rules of the bodies should have been concerned very largely with their own self-imposed discipline and that to this day it follows that no court is likely to upset their own interpretation of the professional code. It is significant, too, that much of the code has been based on the general prohibition, in the words of the constitution of the Society, of discreditable or dishonourable conduct. That a detailed and ever evolving standard of practice should arise from one such written principle is no surprise to those whose unwritten national constitution is based on the confidence that a generally agreed solution will be found for every difficulty as it arises.

—Compared with British Accountancy

NEVERTHELESS, ALTHOUGH circumstances have imposed quite different methods on the profession in the two countries, the similarity of the thinking and of the resultant conclusions is striking. This similarity is perhaps best demonstrated by pointing to the comparatively unimportant differences that do exist.

Number three in the rules of professional conduct issued by the American Institute of Accountants prohibits entirely the acceptance by accountants of commission or brokerage. With the consent of the client, its acceptance would be permitted in some circumstances in this country—for example, a share of stockbroker's commission may be accepted.

The reason that rule number nine, in prohibiting fees contingent on results, excludes tax matters, appears to be that both the rules of the Treasury Department and the canons of ethics of the American Bar Association permit contingent fees for tax work subject to certain conditions.

Rule number eight prohibits the direct or indirect offer of employment to an employee of another public accountant unless that other accountant is first informed.

The last and most important difference is the provision in rule thirteen, adopted in 1941, prohibiting an accountant from reporting on a public issue if he or a member of his family has a substantial financial interest. Moreover, he must disclose any such interest if he expresses an opinion on a financial statement, even if not for a public issue, if the statement is to be used as a basis of credit. This subject of independence has absorbed much attention in the United States, and the Securities and Exchange Commission has also laid down rulings on the circumstances that tend to impair the independence of certifying accountants. In 1954, the Illinois Society of Certified Public Accountants adopted a new rule prohibiting a member or a firm of which a member is a partner from expressing an opinion on the financial statements of any organisation if the member, his partners or their immediate family living in the same house held a direct or indirect financial interest in the organisation in question.

Others of the rules would be regarded here as supererogatory, in that they relate to matters regulated by law, and still others as undesirable, in that they are attempts to define general principles that would be certain to be defeated by inevitable changes in the conditions they were designed to meet.

But, again, the differences are of method and not of objectives; it is far more stimulating and helpful to dwell on the similarities of outlook and practice described so clearly in this attractive volume. To illustrate, two quotations may perhaps be borrowed. One is modern, from Drinker's *Legal Ethics*—"He will find it wise, it is believed, in the long run not to accept any fee from an honest client greater than the client thinks he should pay." The other is from Francis Bacon's *The Elements of the Common Law*—"I hold every man to be a debtor to his profession: from the which as men of course do seek to receive countenance and profit so ought they of duty to endeavour themselves by way of amends to be a help and ornament thereunto."

New Statistics of Distribution

LAST MONTH ABOUT 35,000 businesses in the distributive and service trades received forms from the Board of Trade for a statistical inquiry into stocks, sales and capital expenditure. The survey covers all the larger businesses and a sample of the remainder. Completion of forms is compulsory. A smaller number of businesses already provide information voluntarily and the new inquiry, which is to be repeated every year, will supplement the information from the voluntary returns and enable them to be used to better advantage.

The figures to be given on the form are few and should be readily available from the accounts of the business. Stocks are to be shown at the beginning of the year and at its end; capital expenditure is to be given separately for buildings, vehicles and other capital equipment; and businesses engaged mainly in retailing are required to return the total sales for the year. The year covered is if possible to be the calendar year 1956 but if more convenient it may be a business year ending between April 6, 1956, and April 5, 1957.

The total value of stocks held in the country in the distributive and service trades is estimated at around £2,000 million and the annual outlay on buildings and equipment at around £250 million. Movements in these figures are of great economic significance and it is important that up-to-date knowledge of the trends should be available if economic policy is to be intelligently based.

Some Cost and Profit Figures

ONE OF THE two recent reports of the Monopolies and Restrictive Practices Commission, that on the supply and exports of electrical and allied machinery and plant (H.M. Station-

ery Office, price 11s. 6d. net) contains, apart from the conclusions drawn by the Commission, many figures of interest to accountants. Thus, average profits were as follows:

	Average profits, as percentage of costs			
	1937	1947	1951	1952
(i) Steam and water driven turbo alternator plant	15.9	5.2	15.0	14.4
(ii) Generators (other than in (i)) and electric motors, above stipulated outputs	12.9	10.1	13.8	15.0
(iii) Transformers (other than very small units)	10.6	6.9	18.7	16.7

The ratios of costs to capital employed were as follows for the three classes of equipment given in the preceding table:

	Ratios of cost to capital employed (capital employed=1.0)		
	1937	1951–2	1951–2
	On historical costs		*On replacement costs*
(i)	1.1	1.0	0.9
(ii)	1.4	1.75	1.5
(iii)	1.1	1.2	1.1

The Commission comments that as the manufacturers have spent large sums on re-equipment since the war, it is not surprising to find that the figures calculated on historical costs are close to those calculated on replacement costs.

From the figures of eleven of the largest concerns, costs are analysed so:

		Percentage
Materials		47.1
Direct labour		11.5
Erection on site		2.4
Overheads:		
Indirect wages and factory overheads	22.4	
General administration, selling, distribution and research expenses	16.6	
		39.0
		100.0

The proportion of overheads, at nearly two-fifths, is rather higher, says the Commission, than in most other industries recently investigated, but is not outstandingly high.

The Commission concludes that the common price system operated for all the three classes of electrical equipment is against the national interest, both in the home trade and (with one member dissenting) in the export trade.

The finding of the other report of the Commission, on the supply of electronic valves and cathode ray tubes (H.M. Stationery Office, price 7s. net) is that the members of the British Radio Valve Manufacturers' Association have restricted competition. The Commission was required to make only a factual report and not to express any opinion on whether the industry was or was not conducted against the public interest.

Better Terms for Export Credit Insurance

ABOUT THIRTEEN per cent. of all exports from this country are now insured against credit risks with the Export Credits Guarantee Department. The average rate of premium has been declining and is now 9s. 3d. for every £100 insured. Before the war the rates ranged between 12s. 6d. per cent. and 25s. per cent. for a much more restricted cover.

This month the terms offered by the E.C.G.D. to exporters are further improved—without additional premium. On all goods sold on up to two years' credit, once shipment has been made ninety-five per cent. of losses outside the control of buyer or seller will be met by the insurance: hitherto ninety per cent. has been the limit. The settlement of claims will be speeded up: those due to transfer or political risks (such as the blockage of exchange in the buyer's country) will now be paid after four months (instead of six) and those due to default on goods accepted will be paid after six months (instead of twelve). Losses incurred because of a buyer's insolvency are already paid as soon as the insolvency is established. A further improvement in the terms is that for the first time the exporter will have a limited cover against default by the buyer before acceptance of the goods: the exporter must bear a first loss of £20 on every £100 of the invoice price and E.C.G.D. then bears 85 per cent. of any loss within the next £40 of every £100.

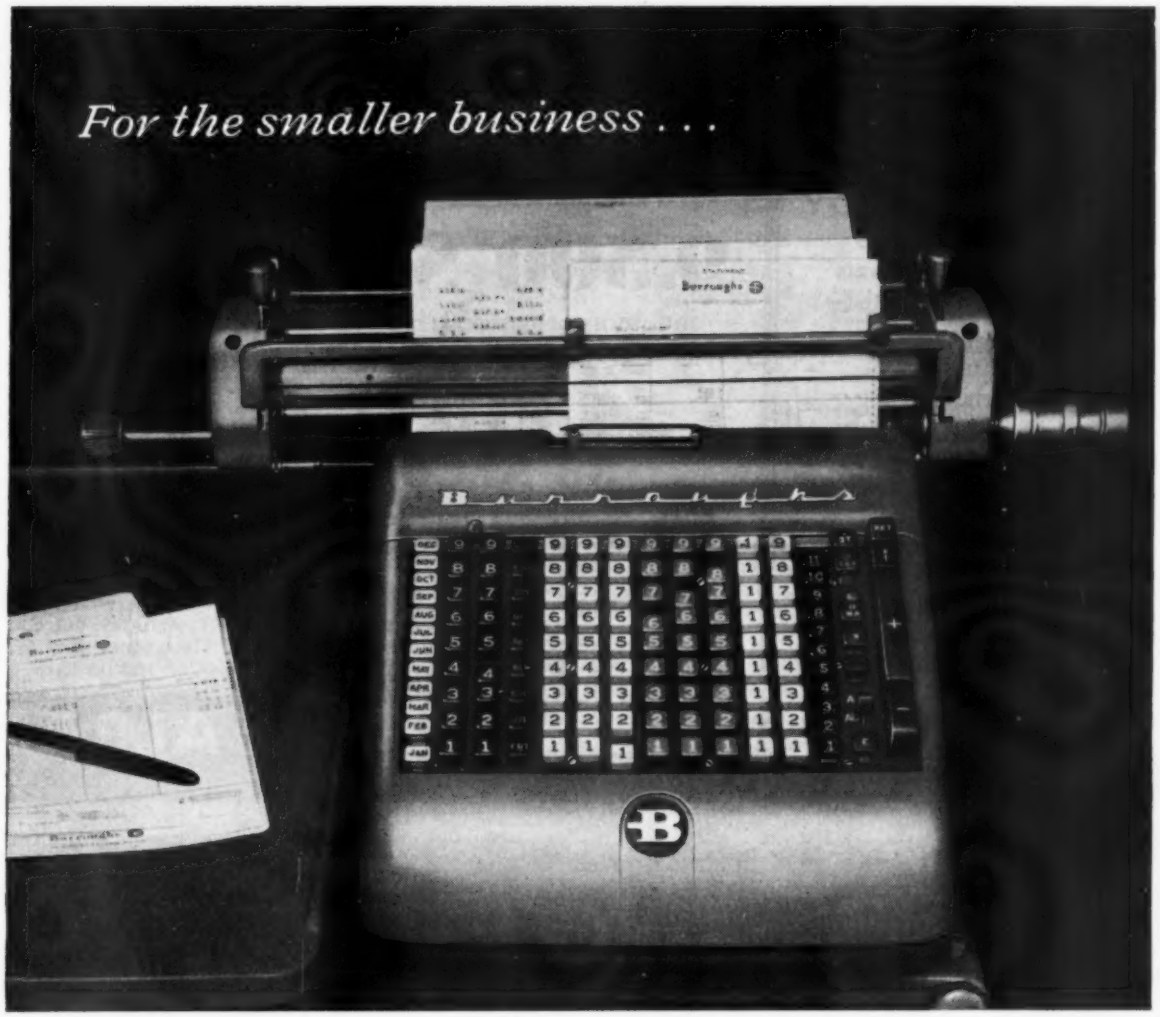
The E.C.G.D. is hoping to improve the cover it gives on other classes of business—for example, on capital goods and construction projects on which the terms of payment extend beyond the two years' period—but is not yet ready to announce any revision of these policies.

Appeal for Youth

TO PROVIDE WORTHWHILE interests for boys and girls between school-leaving age and 18 or 19 may avoid boredom, aimless spending of time and money on meretricious pleasures, even delinquency. The National Association of Mixed Clubs and Girls' Clubs provides for young people the opportunity of culture and fellowship in creative activities. Its 2,000 clubs have 130,000 members, and many young people are members of other organisations. But it is estimated that three out of five of the one-and-a-half-million young people in this age group now at work have no interests in any youth organisation or further education of any kind. The Association is anxious to attract them. It needs more leaders, better premises, and better salaries for organisers and local staff. The National Association, whose address is 30 Devonshire Street, W.1, has launched, under the auspices of the Lord Mayor of London, an appeal both for money and for voluntary service, and we commend the appeal to all Incorporated Accountants.

The Film Levy

ONE WAY IN which the production of British films has been encouraged in recent years has been by the payment of a levy on box office receipts by exhibitors and the passing to producers of the sum so raised. The levy has been voluntarily paid, recently on about 96 per cent. of box office takings, but it is now clear that agreement cannot be obtained in the industry to continue a voluntary levy after this year. The Government, regarding a levy as necessary for the financial sustenance of film producers, is proposing that it should be made statutory. The Cinematograph Films Bill provides for a levy for the next ten years, to yield in a year a maximum sum of £5 million



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and a minimum of £2 million. For the first year of the statutory levy, beginning next October, it will be fixed to give a yield of £3¾ million, or some £1¼ million more than the voluntary levy is expected to yield this year.

Under the Bill there will be set up a British Film Fund Agency to administer the proceeds of the levy in accordance with regulations to be laid down from time to time. The chairman designate of the Agency is Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., the President of the Society of Incorporated Accountants.

Restrictive Agreements on View

DURING THE NEXT fortnight there will be opened the register of restrictive trading agreements. Anyone paying a fee of 1s. per day will be able to consult the register in London, Edinburgh or Belfast and to study any one of the 1,350 agreements on it. Every agreement about common prices and conditions of sale, level or agreed tendering, the granting of preferential terms or confining of supplies of goods to certain persons or traders, should be on the register if in force on November 30 last, for particulars should have been sent to the Registrar by the end of February. Agreements on the register will slowly increase in number, for those made after November 30 have to be lodged within three months of being made.

The Registrar has power to take steps to enforce the registration of an agreement if the information has not been provided by the parties to it.

As soon as the register is opened, the Registrar is to initiate action on the first cases leading to proceedings in the new Restrictive Practices Court, which will decide whether agreements are against the public interest. But the appointment of the lay members of the Court has not yet been announced.

Paying Wages

THE PUBLICATION OF *Modernisation of the Truck Acts*, the report of a research panel appointed by the Council of the Chartered Institute of Secretaries, has almost coincided with the announcement that the Government does not intend to take any present step towards the legalisation of the payment of wages by cheque. It is unfortunate that the Government's decision, made in the wake of the public discussion which has so thoroughly canvassed the wage cheque in recent months, may appear to prejudge the issues examined in the report, even though these issues are in a quite different line of thought.

The report reviews very briefly the historical background of the Truck Acts, and goes on to make recommendations for their reform. The panel, criticising the legal definition of "workman," which concentrates upon the amount of manual labour done in the course of employment (a bus conductor is not a workman in this sense, a bus cleaner probably is) suggests that the only distinction justified today is that between employees who are paid monthly and those paid more frequently. Employees paid more frequently should not, says the panel, be paid by cheque (although payment by money order of those absent through sickness should be lawful) but the employer should have the right of paying monthly salaries by cheque, whether the employee consents or not. Deductions from wages, now severely restricted by the Truck Acts, should be the subject of discussion between employers and employees, so that the new codifying and amending Truck Act that the panel considers necessary could be drafted in a manner to fit modern conditions—especially, it is suggested, deductions for pension schemes and for house purchase should be legalised, but deductions for share purchases should not.

The main principle of the Truck Acts, that wages should be paid in cash and in full, the panel thinks should be maintained as the basis of the new legislation envisaged. Luncheon vouchers, however, should be a permissible part of remuneration; and it is recommended that the doubt be removed whether profit-sharing with wage earners by distribution of shares is lawful.

The report, which ends with a brief survey of the legal decisions providing some of the substantial background for the recommendations that have gone before, does not support the current pressure for wage payments by cheque; and its recommendations are in fact less controversial than that one proposal proved to be. It is certainly apparent that there are more difficulties in the payment of wages than many of us have imagined.

Accounting Undergraduates Get Together

THE "UNIVERSITIES SCHEME" operates in more than a dozen universities. A student who obtains a degree in Economics or Commerce, having studied accounting for three years, qualifies for exemption from the professional intermediate examination. His period of study and training for both degree and professional qualification is 5¾ years.

Some of the students have felt that there was a need for a joint organisation of undergraduates from the various universities. The idea crystallised at Manchester University, whose Accountancy Society called a preliminary conference of representatives of other universities. The conference was held at Manchester in January; representatives from Sheffield, Birmingham, London and Manchester attended. They discussed the ways in which a National Association could foster the aims of accounting students, drew up a draft constitution and arranged for the London School of Economics to be the hosts at an inaugural conference in February.

At the conference, in addition to the universities represented at Manchester, delegates from Cardiff and Bristol were present. The constitution was discussed and unanimously approved and has now been ratified by all the individual societies at the universities. Officers of the Association were elected for the period until the first annual general conference in June.

The executive council, consisting of officers and delegates, met to consider the preparation of a report on the present curriculum and the status of articled clerks, for submission to the Joint Committee of the Universities and Accountancy Profession.

It is hoped by the Association that there will be established effective liaison with the professional bodies, thus introducing undergraduates to the life of the profession and creating among practising accountants a better understanding of the universities scheme. Interest among undergraduates in the accountancy profession should be fostered, and an increase in the recruitment of articled clerks from the ranks of university graduates might well result.

Maundy Money

APRIL 18 IS Maundy Thursday. For many centuries during the early part of our history it was the custom of the Kings and Queens of England to perform an act of humility on the Thursday before Easter, by washing the feet of the poor, and distributing alms in the form of food, clothing, and money. James II was the last monarch to perform the foot-washing with his own hands. William III delegated this part of the ceremony, and after Queen Anne's reign it was abandoned.

At about the time of the accession of Queen Victoria to the throne, in 1837, a money allowance was granted instead of provisions, and in 1882 a similar allowance was made instead of the gift of clothing.

For about two hundred years the monarch has been represented at the Maundy ceremony by the Lord High Almoner, though George V and George VI sometimes made the presentation in person. Those receiving it are old men and old women nominated by the Parish of Westminster, and as many silver pennies are distributed to each person as the Queen has years. The number of persons receiving the alms also varies with the age of the sovereign.

Until about the middle of the eighteenth century Maundy money consisted exclusively of silver pennies, but it later took the form of sets of fourpenny (groat), threepenny, twopenny, and penny pieces. This year, when the Queen is thirty years of age, thirty old men and thirty old women will attend the Westminster Abbey service to receive the sum of two-shillings-and-sixpence (thirty pence) in Maundy money consisting, as it happens, of exactly three sets. Additional sums, in ordinary money, are given in place of the food and clothing provided in former days.

The Maundy pennies continue unbroken the life of a coin that probably descends from the Roman *denarius*. In Anglo-Saxon times the silver penny was the standard unit of currency in England, and the Mint struck no other coin for a period of 500 years. A gold penny appeared in 1257, but had only a short life, and the copper penny was not introduced until late in the eighteenth century.

Maundy pennies (unlike our cupro-nickel half-crowns, florins, shillings and sixpences) still continue to be minted in standard silver, 92½ per cent. pure, and are worth considerably more than their face value. They have unmilled edges.

Shorter Notes

Stamp-Martin Seminar

Professor F. Sewell Bray has arranged for a Stamp-Martin Seminar to be held at Incorporated Accountants' Hall, London, on Thursday, May 9, at 6 p.m. Professor Sidney Davidson of Johns Hopkins University, Baltimore, U.S.A., will give a paper entitled "Depreciation, Income Taxes and Economic Growth." Admission is open to all who are interested, but anyone wishing to attend is asked to notify in advance the Secretary of the Incorporated Accountants' Research Committee, Mr. T. W. South, at Incorporated Accountants' Hall.

Speeding Management Decision

This was the theme of a conference for managers in the north of England, held at Southport last month by the British Institute of Management in conjunction with the Federation of British Industries and the National Union of Manufacturers. At one of the sectional meetings Mr. E. Fletcher, M.A., A.S.A.A., Secretary of the Production Department of the Trades Union Congress, gave an address on "Trade Union Reaction to Industrial Change."

Too Many Service Accountants

In its third report for 1956/7, the Select Committee on Estimates criticises the large numbers employed on accounting and clerical duties in the larger depots of the Air Ministry and the War Office, mainly on stores accounting. The Committee urges that mechanical accounting should be much extended in all three services.

Paying Employers for Deductions at Source

A Private Member's Bill seeking to allow maintenance payments that are in arrear to be deducted by employers at source, for payment to a court official on behalf of the recipient under the maintenance order, would permit the payment to the employer of 6d. out of the earnings for each maintenance payment deducted. If the provision is passed, will it be a precedent for P.A.Y.E.?

Shove Ha'penny

Not for the first time, the Ministry of Pensions and National Insurance showed itself oblivious of accounting realities and machines when it put the employer's share of increased National Insurance contributions at 1½d. Accounting for the odd halfpenny was made unnecessary, however, when the sum was subsequently raised to 2d.—an extra charge on employers, but one that most accountants will consider worthwhile.

Building Societies and Profits Tax

At the Annual General Meeting of the Abbey National Building Society the chairman, Sir Harold Bellman, protested that the profits tax was inappropriate to building societies, since the societies did not seek to make profit as an end in itself.

Our Circulation

The circulation of ACCOUNTANCY has steadily increased since the war and now for the first time has passed the 14,000 mark. The average monthly circulation in 1956, as certified by the Audit Bureau of Circulations, was 14,053.

Department of Reserved Double Negatives

"It is never unwise nowadays to employ an accountant with tax experience to unravel the more intricate of our financial problems affecting tax liability."—*The Solicitors' Journal.*

Department of Circular Reasoning

"LIFO (last in, first out) allows traders to assume the goods sold are the last added to their inventory. It disregards, for tax purposes, any profit made in a period of rising prices, if this was in fact not the case."—*The Economist.*

EDITORIAL

Electronic Banking

THE eleven clearing banks have issued a statement to the office machine industry of their requirements to enable them to "automatise," largely electronically, a wide range of their common operations. These operations are those of clearing, paying and ledgering their customers' lodgments and cheques.

Banking is traditionally competitive and one result of this fact is that the pace at which banks have encouraged the development of new equipment and new techniques has in the past been far more uniform. Yet the really large advance in methods promised by electronics could not be achieved unless on an inter-bank scale, particularly since a main theatre of operations must be the clearing house. The banks are to be applauded for getting together in a working party which over the past year exhaustively studied the problems; and though the present outcome is to put an onus on the machine makers to devise machines suitable for the banks, it is a notable advance that the functions expected of the machines are now laid down, even if in somewhat broad terms. There will need to be in clearing departments and large branches of paying banks machines that will sort the cheques returned by collecting banks. Before they are issued to customers, the cheques will have to be imprinted in some way that will enable the salient information to be read later by machine, and the information that cannot be imprinted on the cheques before issue will have to be encoded when they are listed at the branches of collecting banks on being handed in by payees: there will have to be an attachment to the present key-board equipment to allow the encoding to be done. Then there will have to be a computer to extract from cheques the salient details for adjusting customers' accounts, to calculate the adjustment and to store the information as adjusted. The computer will need a far larger storage or memory unit than existing machines, but only a relatively small capacity for calculating. Finally, there will have to be a wide range of ancillary equipment to feed the various machines and to record their product, mainly in print.

It may be affirmed that without a radical change on the part of the public in the services it demands of the banks, no significant economies are possible, given the machines and equipment now available, in the essential banking routines or in the staff or equipment with which these routines are performed. The hope for important economies lies in large-scale automation, but it cannot come in the very short term, and bankers cannot but be highly aware of the dangers of committing their industry to new techniques before they are proved. The capital that full automation will entail will be very large. Even at present the capital investment in bookkeeping and adding machines in a fully mechanised bank office is put at £5 per account. The banks had one experience of mechanisation in the 'thirties that fell short of the high hopes of those days. It is understandable if bankers are now resolved to test against commonsense standards the ideas of the "experts" in which this field abounds. For example, it is right that there should be a firm insistence that whatever technique is adopted for sensing or reading documents promises to develop steadily to the ultimate objective of replacing the human eye with a robot—and a robot that while drastically reducing costs will be entirely reliable for day-to-day working in branch offices of the banks. This need for caution was, perhaps rather ironically, underlined when only a few days after the declaration by the banks, in their statement to the machine makers, that the information to be picked up and interpreted by an electronic processing system from cheques and other vouchers would best be imprinted in magnetic ink, there was announced (see page 189) the production of a new electronic device for optical reading of plain printed characters at extremely high speeds.

There is another answer to the charge of conservatism sometimes levied against the banks. They are concerned above all to preserve intact the traditional relationship of banker to customer, epitomised in the quick and accurate answer to the snap question by the customer "how does my account stand at the moment?" Any automation must leave the branch manager the same facility as he now has for referring without delay to the customer's ledger.

Indeed, in the processes of preparing ledger and statement is the nub of the difficulty of applying electronics to banking. Similarly, in business at large the main issue is in making electronic the comparable processes, such as stores accounting, for the very reason that a major part of office costs are incurred in these processes. Again, all businessmen whose typical clerical problem, like that of the banks, is the handling of large quantities of data which for one reason or another must be on paper and not on cards—stores issue vouchers, invoices, retail counter dockets and so on—will closely watch the progress that is made by the banks in handling and reading automatically their documents, originating from the pockets of about eight million different customers.

We are only at the very beginning of the electronic era in the office. At the same time, banking, like other industries, must diligently seek increased productivity—perhaps must seek it more diligently than most industries, since the banks are so readily accused, even though there may usually be good answers to the accusation, of overcharging their customers. The present broad statement of machine requirements will, it is to be hoped, be translated speedily into specifications, then into blueprints, then into electronic "hardware", then into installations operating, largely on an interbank scale, at much reduced costs.

The history of the official policy of dividend limitation is traced. The limitation of dividends is considered in the setting of their economic and financial functions. A change is proposed in the method of declaring dividends.

Dividends and Their Limitation

By Idris Hicks, B.Com., A.C.A.

Nature of share capital and dividends

INVESTMENT IN THE various securities of public companies is made for the purpose of obtaining a satisfactory income payable out of the profit earned by the application of the capital subscribed. The rate of dividend expected reflects the nature of the business, the risks to which the capital has been exposed, and the degree to which the shareholder has sought to protect himself against these risks. Clearly the payment of adequate dividends in relation to the risks borne by shareholders is of paramount importance in the building up and maintenance of sound capital structures.

Recognised restrictions on distribution

Even if a company appears to be reasonably successful, dividend policy is not without complication. The constitution of the fund out of which dividends may properly be paid has been the subject of many legal struggles. The interpretation of the rule that "dividends must not be paid out of capital" or that "dividends must be paid only out of profits" has reached the stage of an "uneasy compromise between the original (legal) view that profit represents a surplus of total net assets over capital and the accountant's view that it represents a surplus of current assets over current liabilities."* Beyond this important limitation there is a further one more or less voluntarily accepted as necessary for the maintenance of the shareholders' investment. Thus by Article 117 of Table A of the Companies Act, 1948, "the directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves. . . . The directors may also without placing to reserve carry forward any profits which they may think prudent not to divide." Thus, given that the size of the fund of profits can be agreed upon, the amount of that fund that is made available to shareholders in the form of dividends is determined by what the directors consider to be the reserve requirements of the company. The position has been summarised in this way: "A sound commercial policy is the concern of the directors of a company. The recommendation of a dividend should be regarded as secondary to the setting aside of reserves for general contingencies."† To these limitations there has been added an entirely artificial one, asked for as a contribution by companies and their shareholders to the solution of our economic difficulties.

The history of dividend limitation

Dividend limitation as a policy dates from the outbreak of the second World War. Since then public companies have been exhorted to exercise restraint in dividend policy. So far persuasion has been relied upon, but in the background there has often been the threat that legislation may be introduced to achieve the desired end. At first it was intended that dividend limitation should be made compulsory under the Limitation of Dividends Bill, 1940. This Bill, however, was dropped when, as from April 1, 1940, the rate of Excess Profits Tax was raised to 100 per cent. Nevertheless, it was hoped that the spirit of the Bill would be observed. Restrictions that are accepted with good grace in wartime usually prove irksome if carried on for any length of time after hostilities. The principle of dividend limitation proved no exception. It may be argued that strict limitation was still observed by industry until early 1949. Thus in a letter addressed to the Chancellor, dated March 12, 1948, the President of the

* L. C. B. Gower—*Modern Company Law*, London, 1955, page 115.

† V. H. Frank—*Company Accounts*—2nd edition, London, 1952, page 142. This may be an over-simplification since persistent failure to pay what the investor considers adequate dividends, though they could be paid, might lead to unloading on the market of the shares of the company, and difficulties in raising capital at some future date. The aim should be a correct balance between retention and distribution of profit.

Federation of British Industries stated that "subject to discretion in exceptional cases it is recommended that the gross amount distributed by a business by way of dividends in the current year should not exceed the gross amount distributed on the same capital in its last financial year." That there was underlying dissatisfaction, however, was shown when early in 1949 an inquiry was instituted by the Federation of British Industries. A letter described as being in "consultative form" was sent to 504 member companies asking them "to say whether they would support alternative 'A', which was limitation of dividends for a further year (from March, 1949) on broadly the same terms as last year, or alternative 'B', which involved only moderation and restraint." Of 438 replies received, 409 were divided almost equally between the alternatives, eleven indicated unwillingness to accept either alternative, and eighteen could not be classified. The President of the Federation of British Industries, and his colleagues of the Associated British Chambers of Commerce and the National Union of Manufacturers, reported to the Chancellor that on the strength of these replies limitation for another year could be assured, but pointed out six matters for consideration on which industry felt strongly. These matters were "the reduction of public expenditure; the stabilisation of wage rates; the alleviation of the present burden of corporate taxation; the unfairness of using Stock Exchange values as a basis for compensation during a period of dividend limitation; the small proportion of the national income constituted by distributed corporate profits; and the unfortunate effects which the perpetuation of a policy of artificial restriction is likely to have on enterprise, efficiency, and new capital investment." It was obvious then that unqualified acceptance of rigid dividend limitation was at an end. Perhaps recognition of the qualified nature of the agreement to continue limitation for another year accounted for the rather ungenerous acknowledgment of the decision received from the Chancellor—"I am glad that you have been able to give this assurance the carrying out of which I shall, of course, follow with keen interest in the expectation that it will relieve me from the necessity of presenting any legislation in Parliament on this subject matter, at any rate during the current year." By July, 1951, the Government deemed it necessary to issue a White Paper (Command 8318) indicating its intention to introduce "a Bill providing for control of dividends during a period of three years" and outlining the main features of the proposed measure. This intention did not crystallise into legislation. By 1955 it was obvious that dividend limitation was a broken reed and the *Treasury Bulletin for Industry* for September of that year could say that "Ordinary dividends, taking those declared in the first seven months of the year, have increased by nearly 50 per cent. in two years. They rose three times as fast as output in 1954 and nearly four times as fast in 1955. They rose twenty times as fast as prices in 1954 and five times as fast in 1955. They rose five times as fast as wage rates and more than three times as fast as earnings in 1954 and more than three times as fast as wage rates and more than twice as fast as earnings in 1955." (These statistics are of recent trends and the comparison with wages would show up much differently if a longer period of years were taken.) The Autumn Budget of 1955 and subsequent statements of the Chancellor on the present state of the nation have led to a restatement of the need to exercise restraint in dividend payments.

Objections to dividend limitation

In the first place the idea of dividend limitation cuts across a main function of dividends—to attract investors and to retain them as permanent investors in the company. It has been said that shareholders are increasingly concerned, not with holding their shares for a long time as typically they used to do, but with obtaining a quick return by way of income or, more probably, capital appreciation. Thus a company seeking to attract capital on the market must show not only a sound dividend record, but also prospects of at least maintaining the record, if it is to avoid excessive dealings in its shares and the possibility of take-over bids. The Chairman of *Associated Electrical Industries Ltd.* made this point recently when he gave as one of the reasons for maintaining profits and profit margins "so as to hold out hopes over each decade of increased dividends thereby attracting new stockholders and giving our present stockholders a profitable investment." Perhaps the same sentiment was more powerfully argued by the President of the *Hoover* company in the United States in the following terms: "we cannot see any likelihood of Americans making further investments in Great Britain and taking the risks of doing so unless there is sufficient incentive. United States private capital has not lost its taste for adventure but there must be some taste in the adventure." Undoubtedly, a main danger of continued dividend limitation lies in the adverse affect it has on the willingness of investors to accept the risks of business enterprise.

The same point may be illustrated by the state of things in the British steel industry. Most of the companies are extremely conservative in their distribution policy. It is feared by many people that because of this factor the industry may find difficulty in attracting from investors, except perhaps at prohibitive cost, the new capital that it will require to raise in coming years to help finance its expansion plans. Apologists for the industry say, on the contrary, that it needs to retain a very large part of its earnings because in any event much of the funds for the expansion of capacity will have to be in the form of self-finance. Further, some of the companies are planning to obtain capital from existing shareholders on "rights" terms, thus making their approach to only a selected part of the capital market. However, capital so raised will cost more than would have to be paid on capital obtained in the market as a whole if there were no dividend limitation, so that the main argument against limitation is not countered by the device of the "rights" issue.

In the second place there are economic objections to the trend towards self-financing in industry in general, aided and propelled by dividend limitation. The larger company tends, it is argued, to be better able to finance

itself in this way, and by retaining profits, instead of distributing them—and so allowing a fair part of them to flow to the capital market—it prevents the smaller company from obtaining new funds from the market. The result, it is contended, is that large companies and monopoly are encouraged, the capital market is gradually atrophied, the smaller company is prevented from expanding, and the structure of industry tends to ossify.

The main economic reason advanced for dividend limitation is the need to avoid inflationary influences that might be engendered by spending out of enlarged dividends or out of capital gains resulting from the enlarged dividends. But some affirm that on balance saving, not spending, would be encouraged if dividends were not kept in check.

Nominal capital and capital employed

The manner in which company dividends are declared, whether as a percentage of the nominal or paid-up value of the share capital, is misleading as a representation of the return enjoyed by shareholders; it may be that Boards sometimes limit the amount paid in dividends because, related to the nominal capital, the rate appears unreasonably large though, related to the capital employed, it would be modest enough. The earned profits of a company, after proper provision has been made for estimated taxation liabilities and any dividend on Preferred capital, belong to the Ordinary shareholders. In so far as these profits are not distributed they are reinvested in the company on behalf of the shareholders and are part of the capital employed. To declare a steady dividend at a fixed rate over a period of years on the nominal value of the shareholder's investment represents, in effect, a diminishing return on his real investment in the company. Thus it is argued that dividends ought not to be expressed as a percentage of the nominal or paid-up value of the share capital, but only as a percentage of the capital employed.

The chairman of *Rubber Improvements Ltd.*, a public company, after saying "I come down wholeheartedly on the side of restraint, which I regard as being essential in the best interests of our national economy. . . . Why then, if I hold these views, do I support the recommendation of the payment of a final dividend of 40 per cent. making 100 per cent. in all for the year?" continued to argue (we paraphrase his words) that subject to the need, over the exemption limit of £10,000, to secure the imprimatur of the Capital Issues Committee, a public company, if it has the necessary reserves, may create new bonus (capitalisation) shares having the effect of reducing the rate of dividend expressed as a percentage. In these days no one, he continued, would be deceived by such an obvious subterfuge if the sole purpose was indeed to conceal the real percentage rate paid on the original capital. However, it was irrefutable that if the real value of assets employed in a business bore little relation to the actual issued capital, it was the duty of the directors to bring the two more closely into line—and thus to bring also more closely into line the relationship between dividends and assets. It was essential that the rate of dividend should be related to the true capital employed.

Conclusions

While distributions to the hilt are not to be encouraged from the viewpoint either of companies or of the nation, there is a case for making dividends more reasonable in relation to the shareholders' interest in the company rather than in relation to the nominal value of the investment. It is possible to do this in two ways. First the share of no par value could be made legal, a step which would do much to remove the misunderstanding, and indeed misrepresentation, inherent in the present method of declaring dividends. Failing this step, the alternative is to declare dividends, not on the nominal or paid-up value of the capital, but on the average capital employed—and one way of reducing the misunderstandings and suspicions that might be incurred if this change in the mode of declaration were made would be to raise the level of company reporting. The method of bonus (or capitalisation) issues seems open to misrepresentation and misunderstanding since it is easy to demonstrate that frequently the percentage rate of dividend does not fall sufficiently to offset the increase in the issued share capital, and directors may be charged with trying to hide the rate paid on the capital originally subscribed. It seems better to aim at educating the public on the inequity of relating dividends to the nominal value of the capital of a company—a value that in all probability has long since ceased to be at all close to the true capital investment.

Down with Double Entry!

By R. H. PARKER, B.SC.(ECON.)

THIS SYSTEM OF bookkeeping is "capable of being converted into a cloak for the vilest statements that designing ingenuity can fabricate. A man may defraud his partner, or a bookkeeper his employer, if he be so disposed, without ever being detected. . . . By this method of keeping accounts ingenious men have it in their power to make a profitable concern appear a losing one, so as to incline their partners to withdraw from the trade; or they may make a losing concern appear profitable, so as to influence some other person to take their situation, or if they be minded, they may deceive their partners by false statements UNTIL NOT A SHILLING be left in the trade or until they become insolvent!"

What system of bookkeeping is it that produces such terrible results? None other than the principles of double entry, which are the first rules taught to every aspiring bookkeeper and accountant!

The quotation is taken from *An Address to Bankers, Merchants, Tradesmen, etc., intended as an introduction to a New System of Bookkeeping* written by a certain Edward Thomas Jones of Bristol in 1795. The *Address* was a prospectus for a book which followed in 1796 and bore the imposing title of *Jones' English System of Book-keeping by Single or Double Entry, in which it is impossible for an error of the most trifling amount to be passed unnoticed. Calculated effectually to prevent the evils attendant on the methods so long established and adapted to every species of trade. Secured to the Inventor by the King's Royal Letters Patent, Bristol, 1796.*

The "methods so long established" were those of the "Italian method" of bookkeeping developed in the trading cities of North Italy in the fourteenth century, enshrined in Frà Luca Paciolo's great *Summa de Arithmetica, Geometria, Proportioni et Proportionalità* (1494 and 1523) and the works of his successors and imitators, and in essentials still in use today.

Jones strongly attacks this method. Double-entry, he inveighs, is a mere mechanical device for securing systematic posting, and gives no guarantee whatsoever that each individual account is correct. This is a commonplace. An agreed trial balance proves only the arithmetical correctness of the books and does not show up compensating errors, errors of principle or entries omitted from the books entirely. Jones takes this defect as a starting point for his attack on double entry. "For every debit," he quotes, "there MUST be a credit, and for every credit there MUST be a debit." "Alas!" he goes on, "how few consider that if this MUST be the case, this the rule to go by, nothing is more easy than to make a set of books wear the appearance of correctness, which at the same time is FULL OF ERRORS, or of FALSE ENTRIES, made on purpose to deceive?"

The other great defect of double-entry, claims Jones, is that it is only with the greatest difficulty that books kept by the system can ever be balanced. Months, he says, are spent in vain attempts to balance the books. (One wonders at the standard of English bookkeeping in his time!) Even if they are balanced, what does this prove? "A partner or bookkeeper may have short-debited or over-credited his own or some other account in the ledger, and have altered some nominal account on the contra side to make the books appear correct."

Before giving the details of his new system, Jones summarises its advantages as follows:—

(1) It is "perfectly simple and concise."
(2) "It requires LESS LABOUR than any system now in use."
(3) "It is impossible for an error of the MOST TRIFLING amount to pass unnoticed."
(4) "It is IMPOSSIBLE to produce a false Statement from Books . . . that will not be immediately detected."
(5) "The Books may be balanced in TWO OR THREE HOURS."
(6) "When the balances of all the accounts in the ledger are taken off, the work is finished, nor needs in the LEAST examination" but in any case "the posting of ONE THOUSAND entries may be easily examined in an HOUR by one PERSON without the LEAST ASSISTANCE, or the POSSIBILITY of PASSING UNNOTICED an error of the most TRIFLING amount."

In short, claims Jones modestly, "An invention more EXTENSIVELY USEFUL, more ADVANTAGEOUS to the commercial and trading interests of these Kingdoms by its preventing fraud and imposition in accounts or more RESPECTABLY RECOMMENDED, perhaps, never yet made its appearance."*

Testimonials were produced from eminent people, including the father of Sir Robert Peel and the Governor of the Bank of England. It was their opinion that "The SIMPLICITY on which Jones' New System of Bookkeeping is founded—the EXPEDITION with which books may be EXAMINED and BALANCED—the INGENIOUS, CERTAIN, and yet SIMPLE method of discovering ERRORS, or FALSE STATEMENTS, makes it a valuable acquisition to persons in anywise concerned with TRADE."

The actual system when it finally appeared must, after such a build-up, have proved rather an anti-climax. It contained only one important innovation: instead of two columns in the

* Further details on Jones and his system can be found in *A History of Accounting and Accountants*, edited by Richard Brown (Edinburgh, 1905), Chapter VI (by J. Row Fogo), and "Edward Jones' English System of Bookkeeping," by B. S. Yamey (*Accounting Review*, October, 1944).

ledger there were to be ten! In other respects there was very little deviation from the Italian method.

In spite of this, the system had been so well advertised that it was a great success. There were no less than sixteen English editions (one as recent as 1882), several American ones and translations were made into German, French, Italian and Russian. Jones is reported to have made £25,000 out of his system.

Even its opponents took the new bookkeeping seriously. As important a man as James Mill thought it worth while to publish *An Examination of Jones' English System of Bookkeeping, in which the insufficiency of that mode of Keeping Accounts is clearly demonstrated, and the superiority of the Italian method fully established.*

Jones's book had one good result. It aroused great interest in bookkeeping. It may even, indirectly and in a small way, have helped to produce some of the improvements in detail on the Italian method—a method basically never superseded—that have been gradually evolved.

Accountant at Large

Standing on Principle

WITH A REGULARITY which is in some of its implications alarming as well as depressing we read in our newspapers of this or that individual in conflict with established authority. Often but not always the dispute is about land tenure: a compulsory purchase order has been made and is resisted, the occupier of condemned premises is ejected and camps in the street, a house built without planning permission is pulled down. But the citizen in revolt may be protesting against his income tax or his rates, or may be fighting the legal system, with an ardour that supports him even in prison. Rebels of this kind never form more than a tiny proportion of the population, but they naturally receive more than their share of publicity; and probably most of their fellow citizens, reading their story, say something like "Jolly good luck to them!" The Englishman, by and large, approves of people who make a stand against the powers that be.

It has often enough been remarked that here is an odd quirk in the character of one of the most law-abiding nations in the world. It is also a most salutary curb on government, which must by its nature always seek to extend itself: the English ability to produce its Hampden whenever occasion warrants, and to support him with, at the least, quite vocal approval, has always been a Good Thing. But it leaves some interesting questions unanswered, the most notable being, of course, how one is to decide whether any particular rebel is crank or hero. The newspaper reader forms his own judgment on such facts as his paper puts before him, and the jury that is constituted by newspaper readers in the aggregate brings in its curious, instinctive verdict. The crank will still be accorded popular sympathy, but it will be the sympathy that is given to the smaller dog in the fight merely on account of his size; if the larger dog is seen to be in the right popular sympathy will lack its stiffening of indignation.

All this is easy enough for the newspaper reader, but it still leaves to each individual the decision whether he shall or shall not resist, to the point perhaps of imprisonment, an official decision with which he personally does not agree. The conflicts of which we read are interesting—one had almost said amusing—to the onlooker; they must usually be a burden of worry, and can often be something very like tragedy, to all but the most belligerent protestants. Nine people, or ninety-nine, have conformed; the tenth, or the hundredth, stands out for his "rights." It is easy enough to see how such a stand, whether it be heroic or wrong-headed, can shadow a whole life: can lead, indeed, to the sorry state of a chalked blackboard full of grievances displayed in the market place to a populace which at that stage can muster no sympathy at all.

So long as the discussion is confined to fights with government, local or central, or with courts, most of us have the comfortable feeling that this can never happen to us. Tomorrow may prove the feeling to be a delusion: tyranny may appear on our doorsteps and we may be provoked into resistance. But the matter is anyhow essentially much wider than this, and the authority to be resisted may be one much more familiar—dangerously familiar—than Whitehall or Town Hall. Authority takes many shapes, and its sanctions are manifold. The accountant of whom a flagrant dishonesty is demanded can expect to find his position of resistance a secure and defensible one (just as, indeed, can the citizen confronted with an obviously illegal demand from court official or civil servant). But the demand is not necessarily for flagrant dishonesty. It is more likely to be for an action which the subordinate considers dubious but which he knows others might condone. There may be special circumstances, in the context of which he can discern a particular impropriety in the instruction he has been given. Nor is it at all necessary to the statement of the problem to include in it any such dramatic sanction as dismissal for disobedience: the displeasure of one's superior officer can be extremely unpleasant.

Resistance to lawful authority assumes a quite different appearance in the environment of our daily work from that which it bears when the authority is governmental. Governmental orders so easily lend themselves to be regarded as tyranny, and he who refuses to obey is fighting for freedom. In the office it is seldom like that: it may be, certainly, that authority is tyrannical, that a point comes at which the subordinate must at all costs take his stand, but more often the conflict is one of morality rather than freedom, and morality is usually not such a resounding call as freedom.

In any event the difficulty in which A. finds himself is probably nothing so simple as the straightforward decision whether or not to act according to his lights. It is more likely to be the decision whether those lights are true or false: whether this particular instruction is truly one that must be resisted or whether resistance would be a piece of cranky exhibitionism. Every Hampden has to decide for himself just this question, and in all the fog of surrounding cirumstances it is seldom an easy one. The balance must be maintained between discipline and right. The fact that the instruction comes from one who is senior to oneself is a factor to be considered: if every private debated with himself every order he received the army would win no battles. But out of all the debates on the war crimes trials a majority was clear enough in agreeing that superior orders could not in all circumstances be a defence. And that does throw upon the private, whether in the army or in an office in the City, the final decision in each particular set of circumstances. Only A. can decide what A. does then; and A. always deserves the sympathetic understanding of us who, for the time being, are lookers-on.

Taxation

Compensation—Capital or Income?

I—PERSONAL COMPENSATION

ARRANGEMENTS FOR THE variation or cancellation of commercial contracts frequently contain provisions for the payment of compensation for accrued rights or for the loss of future benefits. The managing director who is asked to resign before the normal term of his office has expired may be entitled to compensation; an agreement for profit-sharing with another commercial enterprise may be hampering plans for expansion, and a capitalisation and discharge of the future rights under it may be to the advantage of both parties; an agency agreement may be prematurely determined on account of a decrease of business, or an unexpected expansion may make the opening of a branch in the vicinity desirable. In all these matters the incidence of income tax may have a powerful bearing on the decisions to be taken, and the accountant should be prepared to advise on this aspect while the negotiations are still in progress.

The subject will be dealt with in two articles. This article deals with personal compensation awards. The second, to follow next month, will discuss compensation payments made to firms and limited companies in trade.

It always used to be thought one of the great advantages of being wronged that, under the taxation law of this country, the award of compensation was received by the wronged person tax-free. The salaried official who was injured in a motor accident and lost six months' pay was always awarded the lump sum total of his expected remuneration over the period, and gained from the accident to the extent that he would have had to pay income tax on his salary in the normal way.

Somewhat similarly, the director who was asked to resign from the Board before the normal time for his retirement could often claim his full salary for the remaining part of his agreed term of office, not only without the necessity of working for the remuneration, but also without paying tax upon it. Tax was payable on salary but an award of damages was received tax-free.

So it used to be within certain limits with those in trade, whether they were firms or limited companies. If they kept to their agreements, and earned the profits, income tax became payable, whilst if the other man broke an agreement there was always a benefit to be obtained from his wrongful act, because the compensation, if it could be obtained at all, was usually received tax-free.

Comparatively recently, however, the courts have taken a point of view which is less generous to the wronged party: in an assault which has lately developed a second prong they have effected changes in the law of taxation which are of considerable importance to those who wish to modify contracts or claim damage for their breach.

The Minor Assault

The lesser and later prong of this assault came only a year or so ago from the House of Lords, with the decision in *Gourley* v. *British Transport Commission* [1956] A.C. 185. In this case it was decided that a highly-paid, well-quali-

fied engineer who was injured in a railway accident should recover from the party at fault (the Transport Commission) damages limited in quantity to a fair sum that would compensate him for his loss of earnings (in addition to damages for pain and suffering which were calculated separately) *after* taking into account the heavy reduction that would have been made in his gross income by income tax and surtax. The Transport Commission should compensate this man, said the House of Lords, for what he is in fact losing—a net income of so many pounds a year. Since he receives this compensation tax-free, he will then be in as near a position as money can make him to the position in which he was before the accident.

The logic of this point of view can be seen by contrasting the position of the injured surtax payer with that of an employee, for example, of the United Nations, who is accustomed to receive his income tax-free. If the gross income of those two persons is the same before they are injured, it will be obvious that, if compensation for loss of earning power is assessed on the gross incomes alone, the surtax payer will be compensated to a very much greater extent than his loss, when compared with the United Nations employee.

The objection to this line of argument, that it is consequently cheaper to knock down a surtax payer than a United Nations employee, is irrelevant, because the award of compensation is not to punish the wrongdoer (whose moral blame may or may not be slight), but to compensate the injured party. It always was and still is cheaper to knock down a poor man than a rich one, as far as compensation for loss of working time is concerned.

The real difficulty about this new approach to compensation lies in the practical result that when the injured man attempts to turn his capital compensation award back into income again, he is taxed on the income that his invested capital produces, and he is thus unable in fact to obtain an income comparable with what he was earning before the accident. The old view of the courts, that the personal income tax of the person injured was no affair of the person paying compensation, appeared to work better on balance. (The United Nations man could be treated as a special case, as in fact he is.)

Unfortunately the law has been substantially changed by the decision in the *Gourley* case, for this decision, far from receiving a restricted application by the courts subsequently, has been applied to other cases of compensation payments, in the assessment of damages for some breaches of contract as well as awards for personal injuries. In a case heard in the courts early in 1956, for instance, the award of damages to a director of a company, who was asked to resign prematurely, was diminished on account of the income tax and surtax that he would have had to pay on the salary that he would have earned as director. The case was *Beach* v. *Reed Corrugated Cases Ltd.* [1956] 1 W.L.R. 807, the facts of which may be briefly summarised, as they illustrate the present state of the law very clearly and also illustrate some of the principal difficulties of assessing the future incidence of personal tax.

Breach of Contract

Beach was the managing director and general manager of a company, and held his appointment under an agreement which was to run for fifteen years as originally signed. Ten years before the agreement was due to expire the company terminated his appointment, and Beach claimed damages for wrongful dismissal. The gross loss of salary from the premature termination of the agreement was £48,000, whilst the minimum net loss, after the deduction of all possible income tax and surtax, was estimated to be £4,650. The High Court Judge whose task it was to estimate a fair award decided that on principle there was no reason to distinguish an award of damages for breach of contract in this case from an award of damages for personal physical injury, and that therefore the tax which the director would have paid on his salary should be taken into account and the award diminished accordingly, just as in the *Gourley* case.

The director's personal rate of tax was influenced by the fact that he had a large private income, but he claimed that during the currency of the service agreement he would have diminished his effective taxable income by making large payments under seven-year covenants. His investments, too, it was claimed, might be sold during the period. Influenced by these considerations, and a large number of other minor ones, the Judge eventually made his award the sum of £18,000, obviously as much a compromise figure as an accurate pre-estimate of the net future loss of earnings.

The net result of these two cases just considered appears to be that, both in cases of compensation for personal injury and in cases of compensation for breach of contract which affects personal earnings under a contract of employment, it is necessary to take into account the personal tax that would have otherwise been payable on the earnings that the injured party would have received.

It is an unfortunate result of this rule that whilst loss of earnings was often the one principal factor in an award of damages that could previously be calculated with some precision, the exact amount of this loss under the new method of calculation is now a matter of estimation.

As was noted in the March issue of ACCOUNTANCY (page 123), the Lord Chancellor has now referred to the Law Reform Committee the question of the decision in *Gourley's* case and its implications. Gourley himself died recently (after having made a remarkable recovery in health and capabilities from the serious injuries he sustained), and of course his successors cannot now benefit from any change in the law, any more than can those who have since been compensated in the courts on the same principles. The unsatisfactory position in which these people find themselves, though, may induce the Committee to recommend some change.

Whatever the Committee may recommend for the future, however, they will certainly be faced, in any suggestions for change from the old order that obtained before *Gourley's* case, with considerable difficulties in the problem of restoring some measure of certainty in this branch of the law. Pain and suffering cannot be objectively assessed on a universal set of rules, but loss of earnings

ought to be a matter of accounting, based on an established set of principles. Unfortunately, whatever the Committee may recommend, the law cannot now be changed without an Act of Parliament, and in consequence it may well be some time before the position is settled. In the meantime the Judge's estimate of a man's personal taxation—a matter of economic and political conjecture on one side (the basic rates of income tax and surtax for the future) and of objective guesswork on the other (the man's personal circumstances, his dependants and his allowances)—will remain one of the most dubious factors in disputes before the courts.

It will be noted that there is no obligation upon the person paying the compensation to hand over the balance to the Inspector of Taxes. This balance, the difference between the gross loss to the person compensated and the amount of the actual award, is not withheld by the payer for account of the Inspector of Taxes, but merely on account of income tax and surtax that would otherwise have been payable by the person compensated. The Inspector of Taxes has no claim to this balance, for no income has been earned on which it is payable.

The Second Attack

So much for the first prong of the attack by the courts on the principle of tax-free compensation. The other prong has been, as might be expected, an attack by the Inspector of Taxes upon the receiver of the compensation. The Revenue claim to tax has in many cases been based on the contention—simple, reasonable, but in some cases pernicious—that since the compensation award has been made to replace income that would have been taxable in the hands of the recipient, the award itself should in consequence be taxable similarly in his hands.

The logic of this argument, as far as it goes, is unimpeachable. The unfortunate result of this two-pronged attack, is, however, that the wronged party in a case of breach of contract or of negligence appears at first sight to be in danger of suffering a double deduction in the computation of his compensation: a first deduction by the payer, on account of tax that the recipient would have paid on his original earnings or profits (which the payer, as noted, is under no obligation to pay over to the Inland Revenue) and a deduction by the Inland Revenue from the sum awarded as compensation, on the grounds that since the compensation has been paid in place of a taxable income, the award must be taxed as well.

It must be said at once that, so far as is known at any rate, no one has yet actually suffered such a double deduction, and it is consequently a little early to criticise the courts for any particular decision in any particular case. On principle, though, either proposition appears to be maintainable, and it appears at first sight as if the law is rapidly approaching the position at which the unfortunate payee will in fact, by binding precedent, become subject to a double deduction.

A Conditional Judgment

The only present bar, in fact, to the possibility of such a double deduction appears to be a short conditional phrase which was introduced into the judgments of the House of Lords when they first laid down the principle, in *Gourley's* case mentioned above, that the compensating party (the British Transport Commission, in this case, whose servants were guilty of the wrong of negligence) should make compensation to the injured party, Mr. Gourley, *on the basis that he received the compensation payment tax-free.*

As a matter of practice, therefore, it becomes necessary to consider, when assessing compensation for an injury, whether or not the person to be compensated will in fact receive the sum awarded, when it has been estimated and paid to him, free of tax, or whether it will be subject to tax in his hands. The whole basis of calculation of the awards for injuries, whether for breach of contract or for civil wrongs such as negligence, thus depends upon the extent to which the Inspector of Taxes has been successful in the past in establishing before the courts a right to income tax on a compensation award. The line of reasoning of the courts will perhaps be more easily followed if examples are taken first from contracts of employment, in which there were two illuminating cases reported from the courts in 1950.

The first of these two cases, first in point of logic although not in point of time, is the fairly well-known case of *Dale* v. *de Soissons* [1950] 1 A.E.R. 912, [1950] 2 A.E.R. 460. A Mr. de Soissons was appointed assistant to the managing director of a limited company under a somewhat unusual form of service agreement. This agreement provided, amongst other things, for a three-year period of service, with specific provisions for earlier termination on one of two fixed dates, at the option of the employing company. Should the company terminate the agreement on either of these two fixed dates, one of the clauses provided, Mr. de Soissons would be entitled to a certain sum of money in compensation.

The company in fact terminated the agreement at the earlier of the two dates, and the sum of money specified under the agreement was paid to Mr. de Soissons. On this sum the Inspector of Taxes claimed income tax, and his claim was upheld both in the High Court and in the Court of Appeal.

Outside Pressure

In the second of the two cases referred to, *Henley* v. *Murray* [1950] 1 A.E.R. 908, the service agreement was also between a limited company and an individual. One of the directors of two companies resigned before the due termination of his appointment with those companies, in consideration of the payment of the sum of £2,000. The termination came at the option of the companies, under pressure from outside parties who were willing to provide finance, and was against the wishes of the director and in breach of his agreement. Once again the Inspector of Taxes claimed income tax on the sum awarded, but this time the claim was rejected by the courts.

A first consideration of the bare facts and decisions in these two cases would suggest that the deciding line between payments subject to taxation and payments received free of tax could be drawn by observing simply that

payments which are expressly provided for in the original contract of employment are payments received under the agreement, and therefore taxable, whilst payments received in compensation for a breach of the agreement are received free of tax. This broad statement of principle would leave untouched, however, the vast majority of payments made for the premature termination of a contract of employment, which are usually neither expressly provided for in the original contract of employment nor awarded as damages by an independent party after a unilateral breach of the agreement. They are sums which have been arrived at in negotiations between the parties as the agreed compensation for the variation of the rights under the contract of employment, usually, in short, a mere payment for the termination of the principal contract.

Such payments are akin to the award of damages for the unilateral breach of the agreement by one side (the sacking of the employee, or the premature termination of the appointment of the managing director without notice), since the agreement is equally well, by negotiation even if not by unilateral breach, brought to an end. These payments are also, however, somewhat akin to payments within the framework of the original service contract, since they are in lieu of future wages or salary which would in the normal way have been payable under the subsisting contract of service.

An Unfortunate Distinction

A closer examination of the reasoning of the Judges of the Court of Appeal, which decided the case of *Henley* v. *Murray*, shows that the court was not inclined to draw any distinction in principle between payments which were expressly provided for in the original contract of employment and those which were negotiated subsequently. Although the matter is not free from doubt, the better legal opinion appears to be that the distinction between those payments that are taxable in the hands of the recipient and those that he receives tax-free is simply the distinction between payments negotiated between two willing parties and payments in genuine compensation for a unilateral breach of an agreement.

The matter may be illustrated simply by one example: if the Board of a company terminates the appointment of the managing director as a result of a quarrel, and his solicitor afterwards succeeds in recovering from the Board a year's salary, this sum will be received free of tax. If, on the other hand, the Board put the position amicably to the director and offer him a year's salary as an inducement to resign, and he accepts, he will be held to be receiving that year's salary under his service agreement, and it will be taxable in his hands. Not a particularly solid rule with which to draw a distinguishing line for tax purposes!

[*To be continued*]

Woodlands

BOTH FOR income tax and for estate duty, woodlands are in a special category.

Schedule A

For income tax, Schedule A, woodlands are assessed in the usual way on the net annual value (N.A.V.), which is arrived at by deducting from the gross annual value (G.A.V.) the following:

(*a*) Repairs allowance of one-eighth of the G.A.V.;
(*b*) Five-sixths of the tithe redemption annuity (being the interest portion);
(*c*) Land tax (if any) or public drainage rates (if any);
(*d*) In Scotland, the owner's rates.

If the woodlands are let, the tenant will normally be assessed and will deduct from the rent the tax paid, not exceeding the standard rate of tax on the rent.

As usual a maintenance claim can be made by the owner where the cost to him of repairs, maintenance, insurance and management on the average of the preceding five years exceeds (*a*) above: repayment may be claimed on the excess. For this purpose, if the woodlands are part of an estate, no separate claim may be made; the amounts of repairs, etc., and the repairs allowance will go into the totals for the estate.

Schedule B

The occupier of woodlands is assessable under Schedule B to cover the profit he is deemed to enjoy. The assessment is on one-third of the G.A.V. No relief is available if the net profits are less or if a loss is suffered on the woodlands.

Schedule D

The occupant of woodlands that he manages on a commercial basis and with a view to the realisation of profits can elect to be assessed under Schedule D, Case I, instead of under Schedule B. Written notice must be given to the Inspector of Taxes on or after April 6 to reach him not later than June 5 in the first year of assessment for which the claim is made (August 5 in Scotland). The claim is supposed to be delivered either personally or by registered post, but an unregistered letter is accepted. The letter must state whether the claimant wishes to give proof to the General or Special Commissioners, a decision by whom is final for that year. (He cannot apply to both in the same year.) The assessment is made by the

General Commissioners unless the claimant elects to be assessed by the Special Commissioners.

The election must extend to all woodlands on the same estate managed on a commercial basis, save that if notice is given within ten years of planting or replanting any woodlands, the occupier may treat them as on a separate estate.

Once made and allowed, the election is binding for all future years until there is a change of occupier. There are the usual rights of appeal against assessments.

Accounts may be made up to any date selected by the claimant. If accounts are not kept on a true accounting basis, a cash account will usually be accepted. This account can be in this form:

Receipts
- Sales of timber
- Sales of bark, underwood, litter, firewood and faggots
- Value of timber used on estate
- Value of underwood, litter, firewood and faggots used on estate
- Sales of seeds and plants
- Sales of hay or other produce
- Grazing receipts
- Value of grazing or other produce consumed (at market value)
- Other receipts (detailed)

Payments
- N.A.V.
- Land tax
- Rates
- Interest portion (5/6ths) of tithe redemption annuity
- Plants, seeds and manures purchased
- Nursery work
- Preparation and planting
- Management, supervision and labour (including expenditure on hedges and fences, and protection against fire and vermin)
- Insurance against fire and tempest
- Felling and marketing
- Repairs and renewals of tools and plant
- Other expenses (detailed)

Should the occupier assessed under Schedule D sustain a loss on the woodlands he can make the usual claims under Sections 341, 342, 142, etc., of the Income Tax Act, 1952. In respect of capital expenditure on the construction, reconstruction, extension or adaptation of forestry buildings, cottages, fences or other works for the purpose of forestry on land owned or occupied, the person incurring the expenditure can claim relief under Section 314, under which one-tenth of the expenditure is allowed as a capital allowance each year for ten years commencing with the year of assessment following that in which the expenditure was incurred.

Estate Duty

It is not proposed here to deal with estate duty if the death occurred before April 30, 1909. On a death on or after that date, land on which there is growing timber must be valued at the market (selling) price. This includes trees, wood or underwood. The value is not, however, to be aggregated in arriving at the principal value of the estate or at the rate of estate duty. Nor is estate duty then payable on the value of the timber.

If the timber, etc., is sold standing (whether with or apart from the land), estate duty becomes payable, at the rate paid on the estate on the last death on which it passed, on the value at the date of death. If the sale of unfelled timber is a partial one, duty is payable on the proportion of the value at date of death. Should it be cut or felled and then sold, estate duty is payable at that rate on the net sale price less all necessary outgoings since the death. In all, however, the estate duty is never to exceed the amount payable on the value at the date of death. If outgoings exceed receipts, the excess can be carried forward against subsequent sales. The basic principle is that growth since the death is not dutiable.

Estate duty is not charged on the proceeds of the sale of underwood whether cut or not. Necessary outgoings include the expenses of sale; expenses of felling and drawing out the timber and of restoring the fences, ditches, roads and gates damaged in the process (if borne by the vendor); expenses of replanting ground on which timber has been felled or thinned since the last death; and expenses of management so far as intrinsically necessary.

There is no deduction for other management expenses, or for rent, tithe, land tax, insurance or expenses relating to game preservation or hunting.

No duty is payable on timber cut for use on the estate or on windfalls sold, nor in respect of timber planted since the last death. Only the value of timber as timber is considered: amenity value is ignored.

Timber is not included in the agricultural value of land and therefore attracts duty at the full rate paid on the last death on which it passed.

If marginal relief applied on the last death, the duty on the proceeds of timber sales is payable at the full rate without any marginal relief. It seems that the same rule would apply if it were a marginal relief case under Section 16, Finance Act, 1894, as amended by Section 33 (1), Finance Act, 1954 (i.e. non-aggregation of settled property where the unsettled property does not exceed £10,000).

Illustration (1)

Aggregable property totalled	£40,000
Timber valued at	£10,000

A quarter of the timber was sold standing for £3,500 after deducting allowable expenses. Estate duty would be payable at 24 per cent. (the rate appropriate to £40,000) on £2,500 (i.e. a quarter of £10,000).

No further sales before the property passed on another death. This would start the ball rolling again with a new rate and new valuation.

Illustration (2)

Facts at death and sale as above; some years later half the balance of the timber felled was sold for £12,000 (net). As estate duty has been paid already on £2,500, 24 per cent. is now payable on £10,000 – £2,500 = £7,500. No further duty will be payable on timber until another death.

Illustration (3)

Aggregable property	£42,000

Rate of estate duty, were it not for marginal relief, would be 28 per cent., i.e. £11,760, but marginal relief cuts the duty to:

24 per cent. on £40,000	£9,600
Excess of estate over £40,000	£2,000
	£11,600

Timber sales would be liable at 28 per cent.

Taxation Notes

Directors' Benefits

It has been reported in the newspapers that a Bristol company installed a solar heating system in the managing director's house, his own property. The system remained the property of the company but the managing director would have had an option to buy it if he found it satisfactory. The system is experimental and put a considerable amount of domestic inconvenience on the managing director's household. Since the managing director has the use of an asset belonging to the company, it is reported that the Inland Revenue seeks to value the benefit on the basis of what a more usual method of heating would cost for a house of the same size. The company claims that the secret process takes from the atmosphere low grade heating sufficient for domestic purposes at a cost of 2s. a week. The Revenue seek to value the benefit not on its cost but on the cost of the system which it replaces. It is understood that the Bristol company has decided to discontinue the project and intends to transfer the manufacturing rights to an associate company in Canada. We make no comment, save to reproduce the following note by Beachcomber in the *Daily Express*.

We can all help

Now that a man who wanted to have his house heated by the sun's rays has been told that he would be liable to be taxed on the money saved on fuel, the way is open for an energetic tax drive. Each household should be assessed on money saved by not buying certain things, such as motor cars. I myself, conscience-stricken, have decided to confess to the Inland Revenue that by not buying a new hat for several years I have defrauded them by not including the money thus saved in my income tax returns.

Profits Tax

The fifth supplement to the Inland Revenue official loose-leaf reprint of the Profits Tax Acts has been published to bring the volume up to date by the inclusion of the Finance (No. 2) Act, 1955, and the Finance Act, 1956. Appropriate amendments to existing sheets, cross-references and notes are included, together with a table of rates of profits tax, a complete list of Orders in Council in force on double taxation relief, and a revised index. Copies can be obtained from H.M. Stationery Office, at 7s. net.

War Damage Compensation of Property-Dealers

Although the Court of Appeal determined in *C.I.R.* v. *London Investment and Mortgage Co. Ltd.* [1956], T.R. 413, reported on page 174 of this issue, that the value payments received for war damage by a property-dealing company were to be treated as part of its trading receipts, such a payment received by a taxpayer other than a property-dealing company must be capital.

Under the War Damage Acts, if the cost of repairing a war-damaged building would exceed the increase in its value from the repairs, the compensation would be in the form of a value payment, representing the difference between the value of the building in its war-damaged state and the value it would have had but for the damage, the material date being that when the damage occurred. If the damage was not so extensive that it would be uneconomic to repair the property, a cost of works payment, covering the cost of making good the damage, could be claimed.

Since a value payment thus represents the diminution in the capital value of the property occasioned by the war damage, it must be a capital receipt by a taxpayer not dealing in property.

But in the case before the Court of Appeal the company dealt in property. The property would be brought into the accounts at the beginning of each accounting period at its true value. At the end of the accounting period in which the damage occurred, the property would be shown in the accounts at its reduced value, so that the gross profit would be correspondingly reduced. Accordingly, the company would be *pro tanto* relieved of tax liability in respect of the diminution in value of the property. The logic behind the decision of the Court of Appeal is that to avoid a tax advantage the payment from the War Damage Commission should be treated as if it were an addition to the value of the trading stock.

Yet despite this logic, there are two anomalies. Firstly, the contributions to the war damage scheme were compulsorily levied on property owners, and were treated invariably —for property-dealing businesses as for other taxpayers—as if they were capital expenditure, because there was a provision in the War Damage Acts, finally contained in the War Damage (Public Utility Undertakings, etc.) Act of 1949, expressly prohibiting the deduction of the contributions as an expense. Secondly, the compensation received under the scheme should logically be treated as a capital receipt, for property-dealing businesses as for other taxpayers, since any cost of repairing the damage is disallowed by the War Damage Act. So the question really is: which logic should hold—that which proceeds from the distinction between the trading (and the accounting) of a taxpayer dealing in property and one not so dealing, or that which proceeds from the statutory definition of capital and revenue?

P.A.Y.E. Coding Notices

In the first few months of the calendar year coding notices are issued for the income tax year beginning on April 6 in that calendar year. These notices show the personal allowances, children allowances, dependent relative allowances, housekeeper allowances, etc., life assurance relief, National Insurance contribution relief, and any other reliefs applicable, such as superannuation deductions and expenses allowable. From the

total of these items, there is deducted any income, e.g. net annual value of a house owned, untaxed income, etc., against which it is decided to take allowances into account rather than to collect the tax on a separate assessment. The net total is the estimated amount of reliefs to be deducted from the remuneration of the office in question *after* earned income relief has been deducted.

Since the Tax Tables B take earned income relief into account, it is necessary to "gross" the net total by reference to the earned income allowance, by adding two-sevenths of it. The result is the free pay shown in Table A.

Tax tables are supplied for weekly and monthly pay days.

Illustration

The coding notice of a single taxpayer shows:

	£
Personal allowances	140
Life Assurance Relief..	28
National Insurance Contributions ..	12
Total allowances	180
Deduct: allowances to be set against other Income:	
House N.A.V.	40
	£140

Code Number 32

To understand the make-up of the tables, it is necessary to appreciate what follows. The allowances work out at £11 13s. 4d. a month. This is after earned income relief, or £11 13s. 4d. + 2/7ths of £11 13s. 4d. before earned income relief, which would give free pay of £15, which is the amount shown in Table A as Free Pay in Month 1.

In Month 12, the free pay is £140 + 2/7ths of £140 = £180.

If the pay is always £50 a month, Table B shows that there is to be deducted in Month 1 from taxable pay (£50—£15=£35) the sum of £6 16s. 0d.

The table shows that in month 12 there is to be deducted (on £600—£180=£420) tax of £81 15s. 0d. Deducting the tax already deducted to date, £74 18s. 0d., the deduction for month 12 is £6 17s. 0d.

The month 1 charge is based on the following:

	£ s. d.
Pay less free pay	35 0 0
Deduct earned income relief 2/9ths—say	7 15 6
	£27 4 6

	£ s. d.		£ s. d.
1/12th of £60	5 0 0	at 2/3	11 3
1/12th of £150	12 10 0	at 4/9	2 19 4
1/12th of £150 or balance	9 14 6	at 6/9	3 5 8
	£27 4 6		£6 16 3

The odd 3d. is adjusted periodically as in Month 12 when £6 17s. 0d. is deductible.

When the above is clear, it is easier to follow some of the adjustments that are made, where appropriate, in the coding notice.

(1) Since earned income relief is taken into account in arriving at free pay, as shown in the first paragraph, only seven-ninths of expenses, superannuation deductions and allowable National Insurance contributions are taken into account in the coding notice, to prevent double allowance of the relief. This restriction is not necessary where the earned income exceeds £2,025 by enough to cover all allowances, expenses, etc. National Insurance contributions will be included in full if there is unearned income sufficient to cover the contribution.

(2) If a house is taken into account, any maintenance relief or building society interest payable in connection with the house will be taken into account as an allowance (if known in time) in the coding notice.

(3) The allowable expenses may be such that it is not practicable to bring them all into the coding notice. The Inspector of Taxes in such circumstances will direct the employer to deduct from the pay before calculating the taxable pay expenses not so brought in.

(4) Where the earned income less expenses, etc., deductible therefrom exceeds £2,025, a restriction is necessary in respect of earned income relief in the allowances to the extent of earned income relief on the excess income (this may have to be estimated) or on the allowances, whichever amount is smaller.

(5) Where annual charges exceed unearned income, earned income relief is restricted on the excess. It may also be necessary to adjust the allowances so as to avoid giving reduced rate relief on the excess in such a case.

(6) Should the employee have other employments, suitable restrictions must be made to avoid double reliefs, e.g. if he is in a partnership and all his personal, etc., reliefs, earned income relief, and reduced rate reliefs can be allowed there, his coding notice will have no entries save "S.R." in the space for the code number, telling the employer to deduct at the standard rate.

An auditor or other person whose "pay" goes into his Case II income will have a "N.T." code, showing that no tax is to be deducted.

(7) Tax underpaid in past years may require an appropriate restriction of reliefs to ensure its collection, unless it is in respect of pay (e.g. commission in arrear) that will be paid in the current year.

Usually tax overpaid is repaid; if not, a suitable increase in reliefs may be appropriate.

Stamp Duties

The second edition of Nyland's *Stamp Duties* has now been issued.* It is intended primarily for students for the Law Society's Final Examination and is written in narrative form. Matters of detail which practitioners may need but which are regarded as unnecessary for students are dealt with in appendices. The main text takes up 138 pages, the appendices 102 pages; much of the type in the appendices is rather too small for comfortable reading. There is always a question whether in a student's book it is better to risk excluding some matter of minor importance than to try to bring in everything by use of voluminous appendices, though it is difficult to see how the table of stamp duties could be omitted.

The main text is written in a direct and pleasant style which students can understand. Accountants will learn from it, since it seems to cover most

* *Stamp Duties*, by F. Nyland, LL.B. Pp. xxv+270. (Butterworth, price 25s. net.)

stamping problems, including voluntary dispositions, settlements, company reconstructions and amalgamations and transfers between associated companies, in addition to more common items.

The appendices reproduce the table of stamp duties (including notes on practice, exemptions from stamp duties and capital duty and fees payable on the incorporation of a limited company), with an addendum on the composition of duty on bills of exchange payable on demand (Section 39 of the Finance Act, 1956), which may soon result in the abolition of stamps on cheques.

Assessment of Entertainment Artistes

Leaders of the entertainment world will normally be assessed from 1957/58 onwards in one of the three Tax Offices of Strand, Piccadilly and St. Martin's, if their activities are based on London, while all full-time artistes resident in Birmingham, Bradford, Leeds, Liverpool, Manchester, Newcastle, Nottingham, Sheffield, Edinburgh and Glasgow will be assessed in one Tax Office in their respective centres. Non-resident artistes visiting this country for short engagements will be assessed in Covent Garden Tax Office.

These arrangements are considered to be for the convenience both of the artistes concerned and of the Inland Revenue. They will be effected under a direction made last month by the Commissioners of Inland Revenue, that persons chargeable under Schedule D in respect of a trade, profession or vocation which consists in performing any kind of entertainment for the public may be assessed for 1957/58 and subsequent years in one of a number of Divisions.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

Income Tax

Schedule E—Managing director of company—Secretary and director of company—Transfers of shares to them pursuant to agreements — Transferor chairman of company and chief shareholder—Covenants under transfer agreements for future services—Whether values of shares profits of employments—Income Tax Act, 1952, Schedule E, Section 156, Schedule IX, paragraphs 1, 4.

Bridges *v.* Bearsley, Bridges *v.* Hewitt (Ch. November 8, 1956, T.R. 361) was a double case of more than usual importance because by the novel application of an established principle it created a liability to tax upon sums or values which would not normally have been regarded as having the character of income. The Revenue claimed tax in respect of transfers to the respondents of shares in a public company whose products are known to every schoolboy, Meccano Ltd. Formed in 1908, it had taken over the business founded by a Mr. Frank Hornby; and practically all the shares had been allotted to him. The respondent Bearsley had joined the business in 1907, had become a director in 1919, and had been appointed works managing director on February 15, 1937, under a 10 years' agreement dating from October 1, 1936, a few days after the death of Mr. Frank Hornby. The respondent Hewitt had joined the company as secretary in 1913 without an agreement, had become a director in 1932, and on April 1, 1937, was appointed secretary under a 10 years' agreement dating, as in Bearsley's case, from October 1, 1936. Each agreement contained a 3 years' restrictive covenant and each respondent was to receive a salary and also a commission based on net profits. There was a third man, George Jones, who had joined the business in 1908, the year of the company's formation. By the same agreement of February 15, 1937, under which Bearsley had been appointed managing director on the works side, Jones had been given a like appointment on the marketing and sales side at a similar salary and rate of commission. However, he had become ill in 1945, towards the end of that year had ceased to render any services and had died in April, 1949. He had remained a director until his death.

The three men above-mentioned had been largely responsible for the conduct and development of the Meccano business. Nevertheless, although Mr. Frank Hornby had increased their salaries and rates of commission and there was no suggestion that they were underpaid, he had not responded except to a modest degree to their desires to increase their respective holdings of shares in the company. From time to time he had transferred shares to them and to his two sons so that at his death upon September 21, 1936, Bearsley held 6,000, Hewitt 2,000, Jones 8,040, whilst Roland Hornby held 12,000 and Douglas Hornby 10,000 shares. The essence of the situation during Mr. Frank Hornby's life would seem to be that like many others in like position, he was averse from weakening to any material extent his absolute control of the company, although prepared to increase emoluments and make vague promises. By his will he left the whole of his shares in the company, numbering 161,420, in trust to his wife for life and thereafter to his two sons in equal shares absolutely. Roland and Douglas Hornby were already directors of the company and shortly after his father's death the former had been appointed chairman. Bearsley, Hewitt and Jones had been surprised and disappointed with the will but, for reasons unmentioned but stated in the judgment to be immaterial, took no action until 1945. They then resolved to approach the brothers and ask for 20,000 shares in all. Jones being ill, Bearsley and Hewitt had had an interview with Roland who, it would seem,

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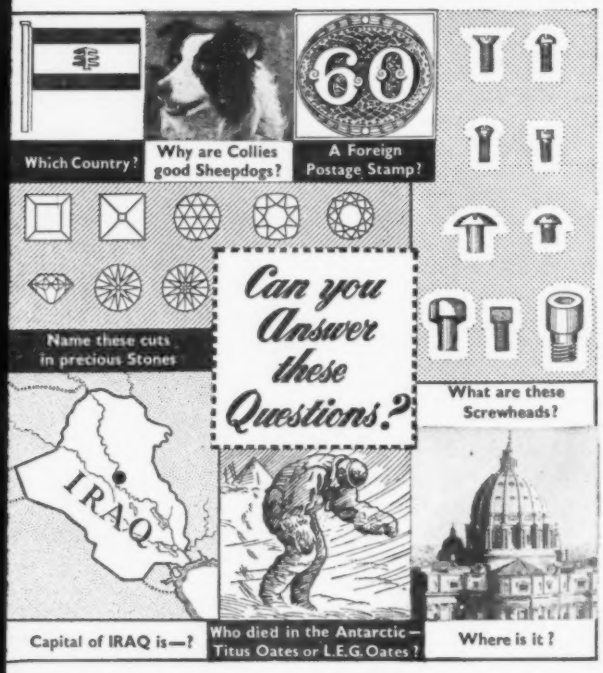

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had at once agreed to the request, his view being that "his father had been remiss in not leaving them any shares in his will." (Whether this reason for a very large gift was the real one would seem to be doubtful.) Of the 20,000 shares, it was finally agreed that Bearsley and Hewitt should each have 8,000 and Jones 4,000. Whilst it was understood by the parties that the transfer of the shares would have to await the death of Mrs. Frank Hornby there was no other condition attached to the promise. It was, however, left to Hewitt to get the arrangement put into legally enforceable form. This meant that there had to be considerations moving from Bearsley, Hewitt and Jones in return for the promises made by the Hornby brothers, and it was dealt with in a series of deeds of covenant in which the promised transfers of shares three months after the death of Mrs. Frank Hornby were made: "in consideration of the covenantee continuing his present engagement with Meccano Ltd. until the expiry of four years from the date hereof . . ."

The date of the deeds was December 30, 1945, so that each of the covenantees would have to continue until the end of 1949 unless his engagement was terminated by the company. Both Bearsley's and Hewitt's agreements with the company expired in 1946.

Mrs. Frank Hornby was 85 when the deeds were executed in 1945; but she did not die until October, 1953. In October, 1952, Hewitt had become ill and for private reasons wanted the shares to be transferred without waiting for her death. On July 27, 1953, all the shares promised in 1945 were transferred to Bearsley, Hewitt and the executors of Jones. Their agreed value was £4 10s. per share and assessments had been made for 1953/54 under Schedule E in sums which included in Bearsley's case the value at July 27, 1953, of 8,000 shares, namely, £36,000. The Special Commissioners had held, *inter alia*, that the transfer of shares was not intended to be an act by way of remuneration for services performed by the respondents as officers of the company and had discharged them. Danckwerts, J., reversed their decision, holding that, following a review of the decided cases, the introduction of consideration into the covenants, which could not be ignored, prevented the transfers of shares from being gifts and linked them up with the services of the respondents as officers of the company. As a consequence, he held the same principle to apply as created liability in respect of taxicab tips, *Calvert* v. *Wainwright* (1947, 26 A.T.C. 13; 27 T.C. 475), and in respect of collections on cricket grounds for professional cricketers, *Moorhouse* v. *Dooland* (1955, 33 A.T.C. 410; 36 T.C. 1). Rejecting a strange Revenue contention that the Hornby brothers were substantially the respondent's employers, he also held, upon the other hand, that evidence as to intention contrary to the plain terms of the deeds was inadmissible. For the respondents, it was also contended, *inter alia*, that any liability had to be computed as at the date of the covenants, i.e. at December, 1945, and so would be out-of-date. Although he could not have intended to lay down a general proposition, his Lordship, however, held that if the shares were remuneration their value had been correctly assessed for the year of payment. Upon this point, although it would not benefit the respondents, it would seem to be arguable that the valuation as income of rights under the deeds should be made as at December, 1949, when respondents' covenants became executed consideration.

The case is, it is understood, going higher; and it may be suggested that a principle applicable to taxicab tips and cricketers' benefits, if found equally applicable in the present case, is a very wide principle indeed.

Income Tax

Trade—Sale of petrol and petroleum products—Trade rivalry—Introduction of "tied house" system—Retailers to sell company's products only—Payments to retailers in consideration of "tie"—Whether deductible in computing profits of payer—Income Tax Act, 1952, Section 137 (a), (f).

Bolam v. Regent Oil Co. Ltd. (Ch. November 19, 1956, T.R. 403) arose out of the extension of the tied house system to garages. About 1951, the respondent company found that it was losing its trade owing to the sales policy pursued by *Esso* and *Shell* of entering into "exclusivity" agreements with retailers to sell their products only. As a consequence it was forced to adopt a like policy and the "war" as it developed had become, as usual, a more and more expensive business. Originally payments had been made to retailers in consideration of the tie calculated at ¼d. per gallon by reference to the gallons of petrol estimated to be supplied by Regent and sold by the retailers. Shortly afterwards, the payment had had to be raised to ⅜d. per gallon or 30s. per 1,000 gallons. The next stage would seem to have been payment in advance of lump sums calculated by reference to the estimated gallonage for the whole period of the exclusivity agreement; and, although at first the period was for a year or less, Regent found itself forced to offer agreements with longer terms, running up to five or six years in some cases. By the end of 1951 Regent had some 3,000 of these agreements and by October, 1955, this had risen to 4,500. From the case stated by the Special Commissioners it appears that at the latter date at least 25,000 out of the 30,000 dealers in the country were "tied" and that the falling-in of agreements and the negotiation of new ones had become a day-to-day occurrence.

The advances above mentioned were not the only expenses entailed by the exclusivity agreements. Regent found itself driven to advance money to dealers, secured in some cases by mortgages or charges on their premises, and also to purchase a number of garages. At June 30, 1955, Regent's outstanding loans to dealers amounted to £1,981,000 and it had expended £2,961,000 in purchasing garages. Nothing had been claimed in respect of these admittedly capital expenditures, but the advance gallonage payments made by Regent in connection with the exclusivity agreements were claimed to be deductible in computing its profits. There was no doubt that the payments had been made wholly and exclusively for the purposes of Regent's trade and the issue was whether they were of capital or income nature. For the Revenue it was contended that each payment was for the purchase of an asset in the nature of a tie which was an enduring benefit for Regent. The Special Commissioners, however, decided in favour of Regent, holding that the payments were recurring payments of an income nature. They found that the purpose had been not to increase the company's pre-existing share of the trade but merely to maintain it. They were, they said, particularly influenced by the fact that the payments were throughout calculated by reference to the estimated gallonages and were very similar to rebates on purchases. An additional fact was that the exclusivity agreements were for relatively short periods and were reviewed when they fell in.

Danckwerts, J., endorsed the finding of the Special Commissioners. After the usual review of the authorities, he asked himself the question:

> Does it make any difference because in the circumstances of the case there has to

> be some lump sum fixed, which is paid to secure the same result [that is, as if payments had been made each year by reference to petrol sold] and even if payment is made in advance for several years?

At this point he digressed into what would seem to be a dangerous analogy:

> I apprehend, for instance, in the case of a lease, if the lease were to be agreed and then the whole of the rent payable was paid in one sum for five or six years ahead, it would none the less still retain its nature of a payment of rent, and would be a current expenditure of the person making the payment and not necessarily an acquisition of a capital asset.

In the circumstances of the case, much would seem to depend upon the exact terms of the exclusivity agreements; but, as regards his Lordship's analogy, it would apparently be hard to distinguish such a payment from a premium. The company's case would seem to be a stronger one than that.

Income Tax

Builders—Partnership—Properties built or purchased—Few sales—House built in 1929 sold to tenant at his request in 1953—Whether profit on sale realised in the course of trade—Income Tax Act, 1952, Schedule D, Case I (Section 123).

In **J. and C. Oliver *v.* Farnsworth** (Ch. November 12, 1956, T.R. 381) the issue was whether the profit realised upon the sale of a particular house was, in the special circumstances, a profit realised in the course of the trade carried on by the appellants, a firm of builders and contractors trading as J. and C. Oliver. The business had been in existence before the 1914–18 war and had been carried on in partnership by Mr. J. S. and Mr. C. S. Oliver up to May 12, 1942. On that date Mr. J. S. Oliver died, and thereafter the firm consisted of his widow and Mr. C. S. Oliver. During its existence properties had been built or purchased, the majority being built by the firm and only about six purchased; there had been sales from time to time, but these were not very numerous. One of the properties, 10 Crimdon Terrace, had been built in 1929 and retained by the firm until February, 1953. During that period it had apparently been let to several tenants. In 1952, the tenant-occupier had requested Mr. C. S. Oliver to sell the house to him and Mr. Oliver had agreed. No attempt had been made by the firm to sell the house: the initiative had been solely that of the purchaser. Additional facts were:

(1) In 1937, the firm's accountants had agreed with the Revenue that any sales of property should be brought into the profit and loss account as trading receipts.

(2) Prior to the sale of the house in question all profits, and in 1933 one loss, had been brought into assessment under Case I.

(3) The profit arising from the sale of 10 Crimdon Terrace had been agreed at £724.

The General Commissioners had found that the profit realised was a profit in the normal course of trade; and Danckwerts, J., affirmed their decision, holding that there was "ample evidence and facts" on which they could reach their conclusion. The case illustrates the difficulty of segregating investments from trading stock where both are of the same nature. It is not shown in the judgment what importance was attached to point (1); but accountants should remember that the decision in *Drayton and Sons* v. *Yallop* (1929, 14 T.C. 449) cuts both ways, and it would seem to be desirable to get the written authority of the client before making such an agreement with the Revenue.

Income Tax

Trade—Property-dealing company—War damage — Value payments — Whether trade receipt—War Risks Insurance Act, 1939, Section 96—War Damage Act, 1943, Sections 6, 7, 10, 11, 23, 36, 66, 79, 96, 113, 127—War Damage (Public Utility Undertakings, etc.) Act, 1949, Section 28—War Damage (Increase of Value Payments) Order, 1947, Article 3.

C.I.R. *v.* London Investment and Mortgage Company Ltd. (Ch. December 6, 1956, T.R. 413) was noted in our issue of October, 1956 (page 406). The simple issue in the case was, as the Master of the Rolls said in his judgment, whether, where a company carried on the trade or business of property-dealing, a value payment received in respect of property held in the course of its trade was to be treated as arising from its trade within the meaning of Schedule D. It will be remembered that the Government scheme as embodied in the War Damage Acts was one of compulsory insurance, a levy upon ownership of property payable in five annual instalments of 2s. in the £ of the net annual value of the contributory property; and compensation for war damage was to be either by value payments or by cost-of-works payments. If, in lieu of the Government scheme, property which was stock-in-trade of a property-dealing company had been insured against war risks in the insurance market, then, whilst the insurance premiums paid would have been deductible in arriving at the trading profits of such a company, every sum recovered from the insurers would have been a trade receipt, *Gliksten* v. *Green* (1929, A.C. 391; 8 A.T.C. 46; 14 T.C. 364).

The difficulty in the case arose out of the provisions in the War Damage Acts, finally embodied in Section 28 of the War Damage (Public Utility Undertakings, etc.) Act, 1949, whereby, in computing profits for income tax, profits tax or excess profits tax purposes, no sum was to be deducted for the compulsory contributions in respect of ownership interests. Unfortunately, as Evershed, M.R., pointed out in his judgment, there was no provision in the Acts whereby, in the case of a trade of property-dealing, any sum received in respect of loss of stock was to be treated as a capital receipt. The Special Commissioners had decided against the company but had made a qualification intended to achieve a just conclusion which, for administrative reasons, the Crown had been unable to accept. Upjohn, J., had reversed their decision, holding that the contributions made and the payments received were not part of the company's trading operations at all but were paid and received by it in its capacity as owner of the land. As pointed out in the writer's original note, this finding did not preclude a contention that the company's capacity as owner was but an incident in the carrying on of its trade as property-dealer. In the Court of Appeal, the decision in favour of the company was unanimously reversed, it being held that the fact of the contributions having to be disallowed as deductions in computing profits for tax purposes did not prevent the application of the principle established in the *Gliksten* case. There having been a difference of judicial opinion, leave was granted to appeal to the House of Lords.

The company may well feel that the present position of the case is wanting in common fairness. If the case is carried to the House of Lords, that body with its wider freedom of interpretation may possibly come to the conclusion that as by the War Damage Acts the contributions were made capital for all purposes, then, despite the absence of statutory provision, it followed by implication that all amounts received whether in the shape of value payments or otherwise fell to be similarly regarded.

Surtax

Settlement for benefits of children and charities—Income payable to charities until eldest child attaining twenty-one—Annuities to children attaining twenty-one—Distribution of capital sum among children on youngest child attaining twenty-five—Balance of trust fund to be then distributed to charities—Whether balance of income after eldest child attaining twenty-one disposed of—Whether resulting trust to settlor—Finance Act, 1936, Section 21 (1)—Finance Act, 1938, Section 38 (3).

Hannay v. C.I.R. (Court of Session (Inner House), November 28, 1956, T.R. 461) arose out of an unfortunate defect in a deed of settlement. The date of the deed is not stated in the judgments, but by it a sum handed over to trustees by the appellant (Lieut.-Commander Hannay, since deceased) and his wife was to be held by the trustees, and it and the income thereof applied by them for certain expressed purposes. The appellant had four children and the eldest child had attained the age of twenty-one upon April 16, 1952. No other child had attained the age of twenty-one or married during the year of assessment 1952/53; and the immediate issue was how far for that year the income of the trust fund was to be regarded for surtax purposes as the income of the appellant.

Of the expressed purposes of the deed, the first dealt with the payment of trust expenses. By the second, until the day on which the eldest child attained the age of twenty-one, the trustees were required to pay the whole of the income of the trust fund to a charity or charities selected in accordance with the provisions of the deed. On attaining twenty-one years of age, each child was to be paid £250 per annum until the youngest child attained the age of twenty-five or married. On the happening of this last, the trustees were required to sell and distribute sufficient of the assets of the trust to enable them to divide equally between the children a capital sum of "£60,000 or thereby." The remaining assets of the trust were then to be distributed amongst charities selected as provided in the deed. As from April 16, 1952, the eldest child had been paid at the rate of £250 per annum. These payments were caught by Section 21 (1) of the Finance Act, 1936, and it was not disputed that for 1952/53 they were the income of the appellant. Whilst, however, up to April 16, 1952, the income of the trust fund had been payable to charities, there was in the deed no provision for any disbursements thereafter of the trust income except the £250 per annum to the eldest child until the other annuities of the same amount became payable in succession as the other children attained this age. It appeared, however, that the balance of income for the year 1952/53 had in fact been paid to charities nominated by the appellant. It was contended that the second purpose of the deed necessarily implied that the balance of the 1952/53 income was to be paid to charities. A further contention was that, although not expressly provided for, there was an implied trust for accumulation as regards the balance of income arising after April 16, 1952. Both contentions were rejected by a unanimous Court, which affirmed the decision of the Special Commissioners in favour of the Crown. In other words, it was found that there was a resulting trust in favour of the settlor as regards the undisposed-of income of the trust. For the year 1952/53, therefore, the whole of the trust income as from April 16, 1952, would be the income of the appellant for surtax purposes.

Surtax

Undistributed income of company—Investment company controlled by not more than five persons—Automatic direction that income of company to be deemed income of members—Profits tax—Distribution charge—Members of company not all individuals—Right of election to be treated as if partnership—Refusal by Special Commissioners to make direction for surtax—Mandamus—Finance Act, 1939, Section 14—Finance Act, 1947, Sections 30 (3), 31, 31 (3), 35—Income Tax Act, 1952, Section 262—Finance Act, 1952, Section 68.

Regina v. Special Commissioners of Income Tax, *ex parte* Linsleys (Establishment 1894) Ltd. (Q.B.D. October 19, 1956, T.R. 373) had "news value" by reason of the somewhat unusual fact that the company asked the Court to issue a mandamus requiring the Special Commissioners to subject it to taxation once described in the House of Lords as "highly penal." It was a company controlled by not more than five persons and so was within the mischief of Section 21 of the Finance Act, 1922, now Section 245 of the Income Tax Act, 1952. It was also an investment company as defined in Section 257 of the last-mentioned Act and, by virtue of Section 262, re-enacting Section 14 of the Finance Act, 1939, the whole of the actual income of the company had to be deemed for surtax purposes the income of the members irrespective of the amount distributed; and the Special Commissioners "shall give a direction" for apportionment amongst them. It would seem, and the issue could only have arisen by reason of this fact, that some, but not all, of the persons to whom the income of the company would be apportioned were individuals. By virtue of Section 262 (6) the relevant period in the case was from April 6, 1953, to May 7, 1953, when the company went into liquidation. This short period had under the Section to be treated as if it were a year of assessment; and the actual apportionable income of the company before making any deduction for profits tax was some £8,900. The profits tax as assessed amounted to £29,856, but was under appeal; and by Section 68 (2) of the Finance Act, 1952, in computing the actual income of the company for purposes of apportioning it, deduction had to be made in respect of the "profits tax payable," grossed up as provided in the sub-Section.

The crux of the case was the word "payable." If profits tax as assessed were deducted in computing the apportionable income of the company for the period there would obviously be nothing to apportion; and, although counsel for the company did not shrink from contending that, even then, the Special Commissioners were bound to make an apportionment of "nil," Donovan, J., giving the judgment of the Court, said that, whilst he was not deciding this question, there were "formidable difficulties" in the way of the argument. For the Crown it was contended that profits tax was "payable" within the meaning of Section 68 because the distributions made by the company in liquidation attracted profits tax by virtue of Section 30 (3) of the Finance Act, 1947. It was further contended that the circumstances of an appeal and the prospect that if an election were made under Section 31 (3) of the same Act profits tax might not be payable by the company for the period were irrelevant to the issue. In a closely reasoned analysis of the relevant statutory provisions by Donovan, J., the Court held that "in Section 68 the Legislature was using the word 'payable' in relation to profits tax as connoting a liability ascertained and fixed."

In view of this conclusion, with no deduction for profits tax there was for the relevant period apportionable income and the Special Commissioners would be required under Section 262

to make a direction. In these circumstances, and only in these circumstances, a right would arise under Section 31 (3) of the Finance Act, 1947, whereby, subject to an elastic time limit, the company and such of its members as were not individuals could elect that for the period in question the business of the company should be treated as a partnership. The result would be that the members of the company that were not individuals would pay profits tax on their apportioned shares of the actual income of the company, whilst those that were individuals would pay surtax on their shares of that income. When an election has been made once and for all, Section 31 (3) provides that the company itself shall not be chargeable to profits tax. In the circumstances, the Court decided to issue the order of *mandamus* asked for.

The case was obviously one where the total tax payable would be reduced if Section 31 (3) could be invoked; and there might apparently be a big difference in the total tax payable as between two cases, one in which before deducting profits tax there is a small surplus of actual income and another in which there is similarly a small deficiency. A small revision of the wording of the sub-Section would seem to be all that is necessary to remove this anomaly.

Estate Duty

Life interest in non-alienable landed estate—Estate duty paid on death of previous tenant-in-tail—Successor's interest to be valued as for Succession Duty—Increases of rent on termination of long leases—Whether further estate duty payable by successor in respect of such increases—Finance Act, 1894, Sections 4, 5 (5)—Succession Duty Act, 1853, Sections 20, 21—Finance Act, 1949, Section 183.

C.I.R. *v.* Earl of Shrewsbury (C.A. November 6, 1956, T.R. 383) was the subject of an extended note in our issue of September, 1956, at page 367. In the Court of Appeal, the decision of Vaisey, J., in favour of the respondent was unanimously reversed. In the course of the leading judgment, given by Evershed, M.R., wherein the legal provisions and the rival contentions are exhaustively set out and analysed, his lordship declared:

> In the result, therefore, the Court is faced with a dilemma. On the one hand, if the respondent's argument is correct, it is inescapable that effect cannot be given to the terms of Section 5 (5) according to their plain and ordinary sense. On the other hand, if the Crown's argument is accepted, it is no less inescapable that an exception is created in a substantial respect from the general scheme of estate duty imposition for which no express provision can be found in the Act itself.

The conclusion come to by his two colleagues and himself was that the Crown's contention was to be preferred. Leave was given to appeal to the House of Lords, and, in view of this fact and of the nature of the case, a more extended notice would seem to be uncalled for at present.

Estate Duty

Specific legacies—Disclaimer—Death of beneficiary within five years of disclaimer—Whether right possessed by deceased—Whether such right, if any, extinguished — Whether extinguishment at expense of deceased—Whether extinguishment for benefit of any person—Customs and Inland Revenue Act, 1881, Section 38 (2) (a)—Finance Act, 1894, Sections 2 (1) (c), 22 (2) (a)—Finance Act, 1940, Sections 43, 45—Finance Act, 1946, Section 47.

Stratton's Exors. *v.* C.I.R. (Ch. November 21, 1956, T.R. 407) was of more general interest than most estate duty cases. By the will of Frederick William Stratton, which was proved on November 2, 1950, the testator left his residuary estate to three sons and made two specific bequests to his widow: first, a bequest of twelve policies on his life for £800 each and one policy for £400, and, secondly, a specific devise of two freehold properties used in connection with his business. On May 28, 1951, the widow, by a deed of disclaimer, disclaimed and renounced all beneficial interest to which she was or might be entitled under the will in the policies and additions thereto and in the said freehold properties. The deed did not disclose the intention or motive of the disclaimer. On June 27, 1953, the widow died, well within five years of the disclaimer. Her three sons, referred to above, had been appointed executors and had sought the decision of the Court on the question whether there was liability to duty. As the policies and freeholds were worth together some £30,000, a sum of over £4,000 was involved. Danckwerts, J., held that the provisions of Section 45 (2) of the Finance Act, 1940, extended the meaning of "gifts" to cover the disclaimer by Mrs. Stratton of the gifts in her husband's will and that there was liability to estate duty.

He said that Section 45 had a heading or rubric "Gifts by way of creation of burden or release of right"; but, although an argument had been based on sub-Section (1), it was sub-Section (2) with which he was concerned. It said:

> The extinguishment at the expense of the deceased of a debt or other right shall be deemed . . . to have been a disposition made by the deceased in favour of the person for whose benefit the debt or rights was extinguished . . .

It seemed to him, he said, that four things had to be established to make duty payable under the sub-Section. Firstly, there had to be a debt or other right owned in some way by the deceased. Secondly, there must be an extinguishment of that debt or other right. Thirdly, the extinguishment must be at the expense of the deceased. Fourthly, it must have been extinguished for the benefit of some person. Rejecting an argument based on the wording of sub-Section (1) he held that, subject to any special case that might arise, "other right" must mean any kind of right having a value of some kind or other.

Prima facie, his lordship said, the right to receive a legacy was obviously a right, and on its extinguishment by disclaimer, *prima facie* the first two requirements of the sub-Section were satisfied. Replying to the argument based on old authorities that the effect of disclaimer was to extinguish a legacy as though it had never existed, he said that whilst this was perfectly correct for many purposes, in *In re Parsons* (1943, Ch. 12), Lord Greene, M.R., referring to the definition of "competent to dispose" in Section 22 (2) (*a*) of the Finance Act, 1894, had said that it seemed clearly to cover the case of a legatee to whom a legacy had been given and who was in a position to take it or disclaim it as he thought fit. The fact that for some purposes disclaimer made the gift void *ab initio* did not mean, Lord Greene had said, that during the period between death and disclaimer the competence to dispose must be treated as not having existed. Referring to *Williams on Executors*, Danckwerts, J., held that he must treat Mrs. Stratton as having had at least an inchoate right prior to her disclaimer. As regards the third requirement, the words "at the expense of the deceased" had, he said, to be given their ordinary and natural meaning and seemed to be covered by the definition of "expense" in the *Oxford Dictionary*—"cost or sacrifice involved in any course of action." The fourth requirement was that the right must be extinguished for the benefit of some

person. Rejecting an argument for the Crown that the disposition was to be regarded as made by the deceased in favour of the person who actually benefited by the disclaimer, he held that it was necessary to find some definite person for whose benefit the right would be extinguished. As to this, he upheld another argument for the Crown that, as there was no evidence to show what were Mrs. Stratton's intentions in disclaiming, it was necessary to apply the rule whereby there was attributed to the person executing a transaction the intention to achieve the results that naturally followed from it—here, the benefiting of her three sons, who, in consequence, all the conditions of the sub-Section being in his opinion satisfied, were to be treated as donees for the purposes of the sub-Section.

Tax Cases—Advance Notes

HOUSE OF LORDS

Firestone Tyre & Rubber Co. Ltd. *v.* Lewellin. February 14, 1957. (Lords Morton of Henryton, Radcliffe, Tucker and Cohen.)

"Brentford" was a United Kingdom company wholly owned by a United States company, "Akron." "Brentford" manufactured tyres and, *inter alia*, supplied distributors in Europe. Payment by them was made to "Brentford", which deducted its costs plus 5 per cent. The remainder was credited to "Akron." The profits of "Brentford's" foreign trade were assessed under Case I of Schedule D.

It was held by the Special Commissioners that "Brentford" was not carrying on a trade on its own behalf of selling tyres to persons outside the United Kingdom. (This was not contested by the Crown in the House of Lords.) Two further questions remained for the consideration of the House:

1. Whether "Akron" was carrying on in the United Kingdom a trade of selling tyres to persons outside the United Kingdom and if so,

2. whether that trade was carried on by "Akron" through the agency of "Brentford."

The two questions were unanimously answered in the affirmative by their Lordships.

COURT OF APPEAL

R. *v.* Special Commissioners, ex parte Linsleys (Est. 1894) Ltd. (in liquidation). February 11, 12 and 13; March 6. (Jenkins, Hodson and Sellers, L.JJ.)

The Court of Appeal has upheld the decision of the Divisional Court in this case.

The company had applied for an order of mandamus directing the Special Commissioners to give a surtax direction under Sections 245 and 262, Income Tax Act, 1952, for the period April 6 to May 7, 1953, in respect of the income of the company, thus enabling the company to avoid liability to profits tax for the chargeable accounting period April 1 to May 7, 1953, by means of an election under Section 31 (3) of the Finance Act, 1947, by the company and its corporate members.

It was held that a direction must be made by the Special Commissioners. Leave to appeal to the House of Lords was given.

CHANCERY DIVISION

Evans (H.M.I.T.) *v.* Richardson. Nagley *v.* Spilsbury (H.M.I.T.). February 12, 1957. (Wynn-Parry, J.)

Richardson, a Regular Army officer, was assessed under Schedule E in respect of a sum paid to him by way of lodging allowance when away from his station on a course which he was required to attend at a place where no Army accommodation was available. He appealed on the ground that the lodging allowance was not assessable but claimed that if it were, an equivalent amount should be deducted from the assessment as an allowable expense under Rule 7, Ninth Schedule, Income Tax Act, 1952. The General Commissioners held that the sum was not taxable.

Nagley, a National Serviceman, was posted to a unit where there was no Army accommodation, and received a lodging allowance which was assessed under Schedule E. He claimed before the General Commissioners that an equivalent amount should be deducted under Rule 7, Ninth Schedule.

The two appeals were heard together. Wynn-Parry, J., held that the lodging allowance was taxable on the authorities of *Fergusson* v. *Noble*, 7 T.C. 176 and *Corry* v. *Robinson* 18 T.C. 411. His Lordship held also, on the authority of *Lomax* v. *Newton*, 34 T.C. 558 and *Sanderson* v. *Durbidge*, 36 T.C. 239, that no deduction could be claimed under Rule 7.

Barney *v.* Pybus. February 26, 1957. (Wynn-Parry, J.)

The appellant appealed against assessments in respect of the profits of his trade of general dealer and interest on the ground, *inter alia*, that the assessments were raised more than six years after the end of the years to which they related.

The appellant was illiterate except that he could sign his name. He had completed a claim for relief for 1939/40 but had not made any returns for the years 1940/41 to 1947/48 inclusive, nor notified the Revenue of his liability to tax. It was claimed before the General Commissioners that he had not heard of income tax until 1951 and that there was no fraud or wilful default on his part enabling an out-of-time assessment to be raised. The Commissioners rejected the appellant's explanation and confirmed the assessments. Wynn-Parry, J., upheld their decision. The Commissioners must have concluded that the taxpayer's not completing returns was deliberate, and if so that he had been guilty "either of fraud or at least wilful default."

Smethurst *v.* Davy. February 26, 1957. (Wynn-Parry, J.)

The respondent was the owner of gravel pits. F. wrote to her asking permission to excavate 500 yards of gravel. Permission was given, F. undertaking to pay the respondent 2s. 6d. per cubic yard. The gravel formed part of then existing gravel pits.

Wynn-Parry, J., held that the transaction was not the sale and purchase of a chattel, that is, the gravel, but a licence to go on to the respondent's land and work the gravel. His Lordship held that the case was governed by *Stow Bardolph Gravel Co. Ltd.* v. *Poole*, 35 T.C. 459, but said that in any event on the agreement itself he would have reached the same conclusion.

Wynn-Parry held that the right given to F. was a "right to use any land" within Section 31 (1) (*d*) of the Finance Act, 1948, Section 31 (1) (*d*).

The Month in the City

Conflicting Forces

The fall in the Funds, recorded last month, continued for some days and then a rally set in. Around the middle of the first week in March, the decline was resumed in all sections, except fixed interest securities outside the gilt-edged list, and by the middle of the month most prices were back to the mid-February levels. It is possible to find a large number of conflicting influences contributing to produce this result, but the overriding factor was probably the resumption of the flow of new issues, together with the obligation to find heavy calls on those offered earlier. Just as in January all prices rose because the institutions invested money that they had held off the market, so in March their heavy participation in new issues tended to weaken the market, at a time when most other people were paying taxes and had little savings to spare. While the growth of unemployment, slight as it has been, tended to keep down productivity, the development of the oil position was almost wholly favourable to industry. Neither manufacture nor transport appears to have been affected to the degree that even the more optimistic feared, while progress towards the resumption of supplies from the Middle East, if still desperately slow, was appreciable, with the result that by the middle of the month some movement in the Suez Canal and some resumption of pipeline use were both possible. Unfortunately, as this anxiety receded somewhat—the attitude of Egypt remains as intransigent as ever—there emerged the threat of severe labour trouble at home in the shipbuilding and engineering industries, causing a 2 per cent. fall in industrial equities in less than a week.

Short and Long Rates

Meanwhile, until well into March the rate at which the Government were able to borrow on tender Treasury bills continued to fall, until there was general talk of a further drop in Bank Rate to 4½ per cent. At this point, however, the supply of bills increased and rate rose a trifle. The fall in the rate had coincided with a further decline in the Funds and with a reduction in the prices at which stocks held by the Departments were put on tap to the market. Little appears to have been sold even at the reduced prices and the talk of a further "funding" issue has evaporated. The net effect of all these contradictory forces has been to keep the pound rather weak on New York and to make the net change in stock market values on the month very moderate. This is reflected in the following changes in the indices of the *Financial Times*: between February 19 and March 15: Government securities from 88.45 to 88.17 after touching 89.06; fixed interest from 96.41 to 96.61; industrial Ordinary from 185.8 to 184.5, after 190.0; gold mines from 73.4 to 72.0.

The S.C.O.W. Offer

The event of the month, long discussed, was the offer of the reconstructed equity capital of the *Steel Company of Wales*. This capital had been written up from under £17 million to £40 million, the whole of which was offered at par. Of the total, Guest, Keen and Nettlefolds took £2 million and Metal Box £1 million, both on underwriting terms. The remainder was also underwritten firm by the consortium of six houses which was used for the early steel issues and was brought back for this very large operation. The rest of the capital will be held by the Iron and Steel Holding and Realisation Agency in the form of £40 million of 5½ per cent. first debenture stock and £25 million 5¾ per cent. second debenture stock, for both of which the Agency subscribed at 98 per cent. In addition it undertakes to find £40 million of temporary finance, which should suffice for the completion of the second and third development plans. Out of the proceeds of these sales the £15 million of debentures held by the public and the loan of £28.2 million due to the Finance Corporation for Industry will be repaid. Apart from the fact that employees of the company can subscribe for the shares under a special scheme of weekly or monthly payments, the public in general competed for the new shares on an equal footing. Only 5s. per share of £1 was payable on application, with an equal amount two months later and the final 10s. on July 3. For the broken year payment will be made at an annual rate of 8 per cent. and it is expected to pay that amount in respect of 1957/58. If all goes well, the dividend may be increased before long, for output is to be raised from 1.7 million ingot tons in 1956 to 3 million in 1961, while over the same period the output of steel plates should rise by one-fifth and that of sheets and tin and blackplate by over 60 per cent. There is little doubt that as long as world trade continues to improve, the company has excellent prospects, but there was little reason to expect that so large an issue would be oversubscribed, except in the purely technical sense that any demand from the public, actually some £5.5 million, constituted an oversubscription.

Budget Shadows

Advice to the Chancellor of the Exchequer about what he should do on April 9, with forecasts of what he will do, have been particularly rife this year. If one discounts the fact that the representatives of labour want higher pensions and cuts in purchase tax, and that those of industry favour investment allowances and a reduction in profits tax, there is a high degree of unanimity on the necessity to extend the earned income allowance and, possibly, to raise the lower limit for surtax. Some people would prefer a straightforward cut in income tax and others would combine reliefs with stricter enquiries into the reasonableness of some expense allowances. Almost all the unofficial advisers and forecasters seem to assume that there will be a substantial amount available for tax reduction. Writing in advance of the publication of the relevant White Papers it is very difficult to find any good evidence for the assumption. Private industry will probably spend rather more this year than last on capital formation and it seems certain that the plans of the nationalised industries are expanding rather than contracting—one would aver that they are expanding very rapidly. It can scarcely be the intention of the Government, after the protracted struggle to end inflation, to risk its re-emergence, and one would hope that any concessions in excess of what is plainly safe will be aimed at securing either larger savings or increased effort in directions where it will mean an early rise in the national income.

Points From Published Accounts

Saving Time and Space

Weyburn Engineering has adopted a new format for its accounts to mark its twenty-first anniversary. A page size somewhat larger than quarto is now employed, allowing more space, and the accounts are now printed on art paper with a stiff cover. These simple changes have wrought a great improvement in the presentation, and the use of blue ink for comparative figures makes a pleasing contrast to the violent reds that are so often used. An interesting innovation is the doubling up of the directors' report with the profit and loss account, a time-and space-saving idea that has much to commend it. Rather unusually the balance sheet is reversed, with the assets on the left-hand side and the capital and reserves on the right. Bearing in mind the obvious care that has gone into the layout it is surprising that this account should be marred by having the figures on the left-hand page carried over on to the right-hand page, so that two totals appear on the one page. By and large it is desirable to have each page self-contained so that the effect of a "balance "sheet is maintained.

A Novel Symmetry

A unique layout is adopted in the accounts of *Norvic Shoe*. The profit and loss account of the parent company is set out on a page facing the corresponding account of the group, the current year's figures in bold type and the 1955 figures in normal type. Linking the two sets of figures is a row of dots broken in the centre by the description of the item concerned, as may be seen in the accompanying extract. The principal items, trading surplus, profits before tax, profit after taxation and so on are picked out in small capitals, giving a very pleasing effect of clarity allied to simplicity. The balance sheet follows the American pattern, with net assets on the left and capital employed on the right: why there should be this departure from British orthodoxy it is difficult to say.

Unusual details are the setting out of goodwill at the head of the assets—is it not best to put the assets in order of importance and surely goodwill is not a more important item than fixed assets? —and the division of minority interests into Preference capital and equity assets. This item is seldom broken down in balance sheets, but it is useful to know the relative proportions. Trade, quoted and unquoted investments are lumped under a single heading: it might be argued that the quoted holdings at least should be included in the current assets total. But these are minor blemishes in a well-balanced set of accounts, the comparative austerity of which is admirably set-off by being sandwiched in between full colour plates of some of the branches in the opening and closing pages. Incidentally this concern differentiates between "trading surplus" and "trading profit" (see the extract below). We feel that here is ground for some confusion, and the term net trading surplus might be a better substitute for trading profit.

1955				
£	£		£	£
529,966		TRADING SURPLUS		**652,518**
	68,935	Depreciation of fixed assets	**85,362**	
	8,454	Loan interest (gross)	**35,150**	
	34,889	Pension funds	**35,640**	
	4,739	Auditors' remuneration	**5,313**	
117,017				**161,465**
412,949		TRADING PROFIT		**491,053**
		Investment income (gross)		
	8,751	Trade	**8,112**	
	1,735	Other	**2,101**	
10,486				**10,213**
423,435				**501,266**

Disposition of Net Assets

A box in the consolidated accounts of *John I. Thorneycroft* gives the disposition of the "surplus of assets over liabilities: interest of shareholders of John I. Thorneycroft and Co. Ltd." amounting to £5,245,584. Of this total, £200,000 is shown to belong to the 6 per cent. Cumulative Preference shares, £250,000 to the Participating Preferred Ordinary, £4,525,859 to the Ordinary, and £269,725 to the future tax reserve. Shareholders can thus see at a glance the net assets available for and appropriate to each class of capital. But why "surplus of assets over liabilities"? The capital and the reserves are liabilities, and total assets equal total liabilities!

A Matter of Layout

Poor layout detracts from the appearance of the balance sheet of *J. H. Fenner* (*Holdings*). It would have been far better to put the two notes "contracts for capital expenditure" and "contingent liability" on the right-hand page, where there is ample room for them really to stand out. As matters are, they appear to form a part of the balance sheet itself—particularly so when the total is actually ruled off below them—and one is presented with a solid wedge of type on one page and comparatively little on the other, giving a lop-sided effect.

That Trade Investments Item Again

Raleigh Industries has always favoured a simple layout for its accounts, and they have an appearance of quality. In fact, the whole effect is quietly pleasing without providing a great deal on which to comment. One point that does stand out, however, is the inclusion of trade investments in current assets. This is an unusual and disputable practice. At the best of times trade investments are an awkward item to classify, but it is significant that where companies feel they ought to be included under a group heading, the choice usually falls on fixed assets. Essentially a trade investment is long-term in conception,and so to include it among fixed assets is rather better than to classify it with current assets. But as we have previously pointed out in these notes, much the best way of dealing with this item is to put it by itself.

A Notable Placing of Notes

Considerable imagination in the use of colour has been employed in the production of *United Steel Companies* accounts. A particularly interesting point is the publication of the chairman's statement in a separate booklet so that the balance of the accounts is not upset. In fact there is already so much ancillary information that to have printed the chairman's statement together with the accounts would have detracted immeasurably from the clarity of presentation that has been achieved. Four full-colour photographs and two coloured graphs help to give a bright easy-to-read appearance to the accounts, which are themselves a model of simplicity. Considerable merit lies in the method adopted of putting each of the balance sheets and the consolidated profit and loss account on a left-hand page with the relevant notes section on the facing page. This is far better than having a separate notes section where one has to sort out which notes apply to which account. In this instance, the items in the accounts are each numbered and each note bears a corresponding number. The various capital, fixed assets and reserves details are given in schedules set out on two facing pages. Blue is used for the comparative figures and the sparing use of red for the main headings is very effective. Another surprisingly effective idea is a thin rule around each of the accounts which, together with the wide margins, makes them stand out very well without recourse to any heavy or elaborate type faces. Altogether a very pleasing set of accounts.

Dual Practice on Goodwill

A certain amount of mixed thinking is apparent in the accounts of *K Shoes*. In previous years a goodwill item of £20,000 as well as trade marks of £100 have appeared in the balance sheet: they are still there, although the directors have seen fit to write off the "excess cost of shares in subsidiary company over the book value of net assets at the date of acquisition" amounting to £37,018. This item arises from the acquisition of T. Mabane and Sons during the year, and its elimination has been effected by reducing the capital reserve from £51,046 to £14,028. Since the alternative to this course would have been to create a further intangible item on the assets side, we wonder why it has been decided to eliminate one goodwill item and hang on to another such item of much longer standing. The answer appears to lie in the fact that the £20,000 goodwill item is ranked as a fixed asset, and no attempt has been made to write it down. There seems to be some confusion of thought here. One is entitled to hold the opinion that goodwill is a fixed asset: indeed in some instances it is a far greater contributor to earning capacity than bricks and mortar, plant and machinery. But one cannot have it both ways. Either intangibles are better out of a balance sheet altogether or they stay as a necessary contributor to the welfare of the business. To make distinctions surely does nothing but invite invidious comparisons.

K Shoes' profit and loss account is laid out in a rather unusual manner. Instead of adopting an orthodox layout of credits on one side and debit items on the other, with the balance thrown up as net profit, the whole account is laid out in order of succession, with the trading profit at the head of the left-hand page. This is becoming an increasingly popular practice, but one seldom sees income set out under a sub-heading "credits" and items to be deducted therefrom under another sub-heading "debits." On the whole, where this form of profit and loss account is adopted it is preferable to see the narrative style used, thus . . . "Our income for the year was £...., from which has to be deducted £...., leaving a net profit of £....."

Lest it be thought that we have nothing but criticism for these accounts, we must point out that the use of a clear typeface and red ink for comparative figures makes them very readable, and we particularly like the cover design which imparts an air of quiet elegance that goes well with the standing of the business.

Accounting Deftness

An interesting method of eliminating a carry-forward item is adopted in the profit and loss account of *Sir George Godfrey and Partners* (*Holdings*). From the profit of the group attributable to the holding company, amounting to £230,350, is deducted £128,851, being the profit retained in subsidiary companies. Thus there is left £101,499, which is the profit available for distribution in the accounts of the holding company. Since the whole of this sum is, in fact, distributed in dividends, there is nothing to carry into the balance sheet and a particularly neat presentation of the profit and loss account is thus possible. A similar compliment can be paid to the balance sheet, which shows only two reserve items—a capital reserve and a revenue reserve. Altogether, the presentation is most pleasing, with some of the new and more important products sensibly illustrated, rounding out the additional facts and information provided in the chairman's statement.

Unnecessary Rules

So far as we know, *Michael Nairn and Greenwich* is the only public company to present its accounts on horizontally ruled paper. This is an untidy set of accounts, which would probably look a great deal better if printed on plain paper only and without any other alteration. This view is borne out by referring to the 1954/55 accounts which were in similar format but printed on art paper and with the cross rules very much fainter. A smaller type, too, was employed. In fact, a comparison between the two sets of accounts bears out more than words can say how easy it is to change completely the character of a set of accounts with a few alterations that, individually, would be of negligible importance but, in sum, make a world of difference to appearance and readability.

Family Differences

It is not often that one comes across radically different methods of presentation in the balance sheet of a parent company and the consolidated account, but this is so in the accounts of *Watney Combe Reid*. Both accounts are couched in the form showing net asset totals instead of aggregate assets, but whereas the balance sheet of the parent company merely lumps all classes of capital together in a single item and shows the reserves separately, the consolidated account breaks up this side of the account into much greater detail. The Preference capital is shown separately, and the reserves and Ordinary capital are segregated under the sub-heading "equity capital of Watney Combe Reid and Co. Ltd. and reserves." This is a commendable form of presentation but it would be even better, we feel, if there had been added emphasis of the fact that the Ordinary capital plus the reserves constitutes a single equity interest. The present wording of the sub-heading tends to suggest that equity capital and reserves are two quite separate things.

A greater measure of criticism must be applied to the unnecessarily cramped presentation of the accounts. This is particularly in evidence in the notes section. When notes run to the length of four-and-a-half pages, the question must seriously be asked: Are they defeating their own object? More space and a greater attention to layout would improve these accounts immeasurably.

Publications

Manual of Cost Accounting in the Footwear Industry. Pp. x+244. Published jointly by the Incorporated Federated Associations of Boot and Shoe Manufacturers of Great Britain and Ireland and the Society of Incorporated Accountants. (*Obtainable from the Society at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2:* 45s. post free.)

THE OUTSTANDING MERIT of this book is that it demonstrates how simple costing is, provided the principles and objects are clearly understood and the organisation is established. It is comprehensive and clear. It segregates principle, practice and illustration, yet welds them into a whole that cannot fail to appeal to both experienced and inexperienced.

The Associations of the Footwear Manufacturers and the Incorporated Accountants' Research Committee have very properly recognised that cost accounting must co-ordinate many viewpoints and that management is as much involved as the accountant. They are to be congratulated on appointing a well-qualified team drawn from various branches of the industry and the profession, whose skilfully blended work strikes the keynote of practicability in the opening paragraph, by appreciating that the smaller working proprietor cannot install the full system. However, small, medium-sized and large units alike are told what they ought to know of their costs, and how they can obtain the information.

The chapters on basic principles, the elements of cost and the breakdown of the main accounting heads treat of matters that are common to all costing but here these topics are given an admirably lucid exposition. Similarly, the second section on standard costing, budgetary control, reconciliations, working statements, and the whole gamut of "cost control" say much which is familiar to the accountant—but it is beautifully expounded and illustrated. There are shown operating statements, periodical accounts and other statements right up to the profit and loss account, and they are of absorbing interest. They have the exact form and content of the budgeted accounts, and not only are they adjusted for the variations from budget, but they show the causes of the variations. Surely these accounts are the acme of perfection, an ideal: how informative they would be to the management! An account of the usual form seems prosaic by comparison. But the book shows how simple it is, by the right organisation, to achieve the ideal in practice.

The practical problems and methods of management are expounded just as clearly. Much space is given to scientific price fixing for cut components, and the recording of gains and losses in actual experience. Stores records, labour costs and control, the organisation and planning of production, receive full measure —the factory manager, in particular, will appreciate this comprehensive treatment.

This book would serve as an excellent introduction to the principles of costing generally, either for the student or for the manufacturer, whatever his industry may be. This statement does not reduce the book to elementary status, but extends the highest of praise—that basic principles and detailed application have been expounded with great clarity.

The book represents the work of nine years by a team of experts, including the following Incorporated Accountants: Mr. G. Thompson, A.S.A.A. (a member, with Mr. D. R. Bedford Smith, F.C.A., and Mr. F. E. Webb, A.C.W.A., of the Editorial Committee), Mr. C. V. Best, F.S.A.A., Professor F. Sewell Bray, F.C.A., F.S.A.A., Mr. H. N. Harwood, A.S.A.A., Mr. H. Rivington, F.S.A.A., and Mr. P. N. Wallis, A.S.A.A. It is excellently produced and the illustrations gain much from the use of colours. It must inevitably become a standard work for the footwear industry. But it may well achieve a wider recognition as an exposition of cost accounting in general. The joint sponsors must be highly complimented. L.S.

Pension Scheme Precedents. By William Phillips, Barrister-at-Law. Pp. xx+ 4,636 numbered paragraphs. (*Sweet & Maxwell Ltd.:* £4 4s. net.)

ANYONE, BE HE accountant, actuary, solicitor or layman, who has been involved in the consideration of the documents establishing a pension scheme, will have appreciated the many variants of benefits and conditions that are possible. The problems involved in expressing the rights and terms in words that will stand up to the test of time, without giving rise to doubts on their meaning, are considerable. If the scheme is one that has to be approved by the Inland Revenue there is the further problem of incorporating the requirements of that Department.

This last problem would not present any very great difficulty if the requirements of the Inland Revenue were set down in a permanent code. The requirements are, in fact, made mainly in the exercise of discretions given under Sections 379 and 388 of the Income Tax Act, 1952, and for this reason the particular form of the requirements has been changed from time to time. Mr. Phillips has obviously made a very careful study of the present requirements of the Inland Revenue in connection with the wide variety of circumstances in which pension schemes have been instituted and this in itself renders his book of great value.

In the book he not only sets out and discusses the law relating to pension schemes but he deals with alternative benefits and methods of meeting the cost. He then proceeds to set out in detail (with alternative precedents in many cases) appropriate clauses or rules for incorporation in the basic documents.

The book is conveniently divided into six sections and the author has adopted the unusual procedure of numbering paragraphs but not pages. The numbering of paragraphs is of considerable help in cross referencing.

In Part I the law relating to pension schemes is dealt with and a brief survey is made of the various methods of relating pension to salary. Parts II and III give precedents for schemes that are to be approved under Section 379 of the Income Tax Act, 1952, and a chapter is devoted to trust schemes under the Finance Act, 1956. In Part IV, clauses common to most pension schemes covering investment powers, accounts, actuarial valuations and so on, are dealt with, and Parts V and VI cover points arising only in special circumstances.

This book will prove a most valuable work of reference for anyone who has to deal with pension schemes. G.A.H.

The Principles of Company Law. By O. Griffiths, M.A., LL.B., and E. Miles Taylor, F.C.A., F.S.A.A. Sixth Edition. Pp. xxiv+589. (*Textbooks, Ltd.:* 20s. net.)

THE FIRST THING the lawyer notices on perusing this book is the complete absence of the thousand and one footnotes one normally finds in legal publications. These footnotes contain, *inter alia*, the "ifs and buts" of the finer sort to the general matters enunciated in the text. In full and authoritative works they are, of course, indispensable to the practitioner, but the text becomes unwieldy, unsightly and often confusing to the elementary student. In this work, however, the authors have incorporated

in the main body of the text everything they wish to say, and everything they expect the student to read, and the text is set in a clear type and arranged in a manner conducive to assimilation. They have clearly directed their minds to the needs of the elementary student and they have interpreted their task as one of instruction, considering that they will have succeeded if the student at the conclusion understands the basic principles set out and is enabled to answer examination questions on them. I am sure they will be successful.

I do not think that at any time the joint authors were considering the needs of those students whose study is the whole of law. Such students at an early date have to get used to finding their information in footnotes and the judgments of the cases cited in the footnotes. They have to acquire, if they can, what is popularly called a "legal mind". But this is no adverse criticism of the book, for if a student is expected to have only a basic, rudimentary knowledge, that knowledge loses all virtue if it is so clouded with detail that the essential outlines are obscured. If a little knowledge is a dangerous thing, an overdose can be fatally indigestible!

Many professional bodies require their students to know some law. The authors have covered fully all the ground that the student of accountancy must traverse, but I think a word of guidance is necessary. It is not given to us all to be able to assimilate and understand at a first or even a second reading. Accordingly I would advise the ordinary average student to make notes of the main principles so that he can revise them later. Experience indicates that it is easier to remember the principles couched in notes of one's own compilation than in those of someone else. This book readily lends itself to an approach of this kind, but the student will find it too full for quick revision before the examination. J.S.O.

Local Expenditure and Exchequer Grants. A Research Study by D. S. Lees and others. Pp. viii+352. (*Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, S.W.1:* 42s. post free.)

THIS BOOK IS the result of a research study sponsored by the Institute of Municipal Treasurers and Accountants, and carried out by a group of local government financial officers under the independent chairmanship of Dr. D. S. Lees of the University College of North Staffordshire.

The group concerned itself with the basis of distribution or the form of government grants to local authorities in England and Wales. It excluded consideration of the total amount or volume of Exchequer grants, such as might result from any redistribution of burden between local rates and government grants.

The form of government grants must take into account three major problems. These are, the group considers, (i) a "resources" problem arising from the fact that "rateable value per head of population differs considerably as between local government areas"; (ii) a "needs" problem arising from the fact that expenditure per head incurred in the provision of local services varies widely due to causes outside the control of local authorities; and (iii) a "control/economy" problem. The last problem arises from the fact that "the English grant system is predominantly a percentage grant system"; some critics contend that percentage grants lead to detailed supervision of local expenditure by central government departments, thereby endangering local autonomy.

The characteristics of the ideal grant are defined, but the ideal grant cannot exist in practice because certain of the ideal characteristics conflict with one another. For instance, equity may be in conflict with economy. It is finally a matter of judgment just where the emphasis should be.

The present grant system is then considered. It consists, in simple terms, of percentage grants in aid of specific local services, together with a resources equaliser, the Exchequer Equalisation Grant, applied independently of the finances of specific services. The principles underlying this system, and its working, are examined in detail in the light of statistics for the year 1952–53, the latest firm data available when the group began its investigation in October, 1954.

An excellent exposition of the Exchequer Equalisation Grant is given. History, principles and details are fully discussed, and the references contained in the footnotes will be of great use to students.

The group considers that the Exchequer Equalisation Grant has succeeded in its chief aim of making it possible for a certain minimum standard in the scope and quality of local services to be maintained in all areas (termed "equity of receipt") without undue disparities in the burdens of local taxation, as measured by rate poundages (which, given uniform valuations, the group terms "equity of contribution"). Despite some imperfections, the group regards the Exchequer Equalisation Grant or some arrangement very much like it as an essential part of the grant system. It is interesting to note that, since this book was published, new Government proposals have been announced for a drastic curtailment of percentage grants, yet a modified Exchequer Equalisation Grant on principles similar to those of the present grant is to remain.

There is an instructive discussion of the fundamental relationship of the Exchequer Equalisation Grant to the rating system, and the repercussions on the grant of the defects of that system. Criticisms of the Exchequer Equalisation Grant as a percentage grant, that it thereby induces extravagance on the part of authorities receiving a high rate of grant, are considered. In the absence of any evidence at least up to 1952–53 that this is so, the group holds to the view that the Exchequer Equalisation Grant "contains its own automatic assurances of economical spending." It, therefore, considers any special form of limiting device unnecessary.

At present the Exchequer Equalisation Grant covering the needs of all the authorities within a given county is paid in block form to the county council. The group endorses the proposal that each district council should be assessed for Exchequer Equalisation Grant separately, so that the relative needs and resources of individual districts are taken into account, as they are not at present. The fundamental principle of "proportionality of rate poundages," by which the grant makes rate poundages proportional to expenditure per head, and which now exists only as between receiving county boroughs, would by the proposed change be achieved as between receiving county district councils too. It may be noted that this important change had already been made in Scotland, and is among the new grant proposals recently announced by the Government for England and Wales.

In dealing with the problem of varying needs, the group have taken expenditure per head of unweighted population as an index of need, although they regard it as a "highly imperfect index." They comment "expenditure per head of itself tells up very little about necessary costs and standards, or about efficiency in the administration of local services. But it is the only index available. The fundamental difficulty is that so little is known about what services

ought to cost and in the absence of this information, we are compelled to regard what is actually spent as at least an approximation to what ought to be spent." The reasons for the wide deviations existing in expenditure per head of population are considered, and attention is given to the effects of sparsity, declining population, increasing population, smallness of population, or a large non-resident population. Weighting devices for increasing the grants of areas with high expenditure per head are considered, in relation both to grants for specific services and to non-specific grants. Issues of principle and practice are discussed, and the kinds of units that might be used for weighting are examined. On weighting for needs the group concludes that weighting for sparsity of populations must inevitably be included in the grant system. They accept declining population as a general cause of high costs, and recommend weighting in compensation. But they find no evidence that a large number of children in relation to population is a cause of high expenditure on local services generally, beyond a high expenditure on education, measured per head of the all-age population. Nor does the available evidence appear to them to support the views that increasing population, smallness of population, industrialisation and a large number of old people in the local population are important causes of high local costs.

The possibility is considered of making unit grants, based on standard unit costs, pre-determined for each service, the principal form of grant. Before arriving at their conclusions the group made many and varied experiments on most of the main local services. All those interested in local financial administration would profit from a study of this part of the book, which contains much on the subject of unit grants that has never been published elsewhere.

The group finds strongly against any considerable extension of the use of unit grants, although housing is regarded as a special case, on the grounds that inequities arising from the existing unit grant arrangements can be adjusted by local variations in rents rather than rates. They consider unit grants as "irrelevant to the problems of the inauguration of new services and of innovation within existing services." Even with "well-established services in which the rate of technical change is small, and thus cost conditions are more settled," the present "lamentable lack of knowledge about why local costs are what they are" or "ought to be" makes unit grants undesirable. Even if accounting difficulties were overcome ("until there is agreement among local authorities on how the various items of expenditure are to be defined and on how they should be allocated, however they are defined, it will not be possible to compile data on costs that are genuinely comparable") the extraordinary diversity of "differing local conditions" makes it doubtful whether funds could even then be distributed by unit grants in an equitable way.

The education main grant formula is considered in detail, and there is a useful survey of highway grants. The importance of sparsity of population in connection with highways expenditure is stressed, and special attention is given to unclassified roads in county areas, and classified roads in county boroughs and London.

On the discussion of broad issues one feels there is perhaps an omission. Since all the chief alternative forms of grant have their own particular drawbacks, it may be advantageous to try a blend of two or more forms, rather than to concentrate on finding the answer to the questions "which is the best?" or "which has the fewest disadvantages?" It might well be found, and the possibility surely ought to be explored, that a blend of a block grant based on weighted population and of substantial percentage grants would give better results than both the method endorsed in the book, the present method consisting predominantly of percentage grants—which are vindicated by the group after an assessment that is thorough even if it will not be conclusive to all readers—and the opposite extreme, exemplified in the Government's new proposals, of a system consisting predominantly of block grants. In the blending, the better points of the one form of grant tend to counteract the undesirable features of the other.

It is impossible in the scope of this review to do justice to the book. Only those who have themselves engaged in research in this field can realise its endless complexities of fact, the difficulty in formulating principles to reflect the facts, and the inevitable imperfections of any grant system in an imperfect world. It is probably true to say that no author who has ever written on this heartbreaking subject has ever felt satisfied about what he has written. Measured against the difficulties of the subject the book is a remarkable achievement. It is a clearly written book, constructed on the *expertise* of practising financial officers, and it never loses sight of practical ends. The authors do not shirk controversial issues, and they state clearly not only their conclusions on them, but also the arguments on both sides. The extent to which conclusions are a matter of judgment is generally made clear. Whether or not the reader finds himself in agreement with the conclusions, the book is equally valuable as an aid to understanding, and it can be recommended as the best and most comprehensive work in recent years on the methods of distributing government grants. H.E.C.

Spicer & Pegler's Income Tax and Profits Tax. Twenty-second edition by H. A. R. J. Wilson, F.C.A., F.S.A.A. Pp. xxxvii+683. (*H.F.L. (Publishers) Ltd.:* 30s. net.)

THIS WORK IS so well-known and well-liked that it would be adequate to welcome the new edition as no less deserving of success than its predecessors. It would be ungracious, however, not to pay tribute once again to the marvel of compression, which has brought into a volume no bigger than the twenty-first edition (and, marvel also, at the same price) the statute and case law of two years. This compression must be increasingly difficult and Mr. Wilson, in his preface, emphasises the continual process of selection involved. On this occasion, appendicectomy has wisely cut out reproduction of statutory provisions on specialised topics, such as settlements, deceased estates and directors' benefits. A work of this nature combines the advanced student's textbook with handy day-to-day reference for the practitioner, for whom the practical approach and examples are important, with their quick focus on a problem which can then, if necessary, be traced to its statutory or case law references, or to a more specialised treatment.

In a new edition, it is natural to turn to the new matter. The 1956 Act is covered briefly but without avoiding difficulties. Space-saving has involved economy in illustration in relation to recent legislation: retirement annuity contracts are a case in point. The author may well reply, however, that it is not the place of a comprehensive textbook to provide a complete exposition of new legislation, since perspective and balance in relation to the whole are all-important. Readers, however, will find topical references to *Sharkey* v. *Wernher*, *Butterley*, *Heelex Investments*, *Universal Grinding Wheel* and *Pollock* v. *Peel*, with their consequences, practical and statutory.

The treatment of profits tax is eminently practical and satisfying, and all within about sixty pages. Examples abound, and, in particular, cover thoroughly such unpleasant computations as loan repayments to director-controlled companies, distribution charges involving a succession of rates of tax, and the transitional provisions caused by the two recent increases in rates. There is doubt about the treatment of distributions, for instance in illustration (7) on page 555 and (12) on pages 560–2. The gross relevant distributions should be calculated, by apportionment, for the separate chargeable periods, as stated in the third paragraph on page 550, and the net relevant distributions must be separately computed for each chargeable period.

The thanks of the profession are again due to Mr. Wilson for his never-ending work in keeping *Spicer & Pegler* thoroughly up-to-date. J.S.H.

Local Authority Borrowing. By the Institute of Municipal Treasurers and Accountants. Pp. viii+117. (*Institute of Municipal Treasurers, 1 Buckingham Place, London, S.W.1.:* 25s. post free.)

THIS SLENDER VOLUME is a research study by five members of the Institute of Municipal Treasurers and Accountants under the chairmanship of Mr. N. Doodson, F.I.M.T.A., F.S.A.A., the County Treasurer of Lancashire. Its three parts deal with the probable future volume of local authority capital expenditure, methods of financing, and borrowing—followed by a chapter of conclusions.

The book is an admirable collection of facts, figures and history on local authority capital finance. The authors realise that much of the material "is already familiar to the experienced practitioner." The book will, however, more than fulfil the authors' hopes that it will be of some value to students. As a summary of local authority practice it is first class and must, therefore, prove a valuable aid for the examination candidate. The "experienced practitioner," however, might expect more guidance on borrowing technique and the theory of debt management than the authors provide in their series of conclusions.

The trouble with some of these research studies is that they are content to summarise information obtained from the circulation of a questionnaire without taking the problem very much further. Research as it is understood in industry and the scientific world connotes the evolution of new methods and new ideas following an investigation into things as they are. Looked at in these terms, this book falls below the definition of a research study.

But these remarks do not detract from the value of the publication as a very handy summary of what goes on as far as capital finance and borrowing are concerned in a representative group of local authorities in England, Wales and Scotland. In this context the book is useful to the practitioner, as well as the student, as a handy means of checking his own practice against that of other people. The book also contains a considerable number of very useful tables and a good deal of statistical information which has not previously been gathered together in one place.

Perhaps it is inevitable in a study of this kind, carried out within a limited space, that facts, figures and background information have had to take precedence over the formulation of new ideas. The authors will not, I hope, consider it impertinent to suggest that now that they have discovered "how" they may like to consider "why" and possibly suggest from further investigations what improvements in technique are possible.

Every local authority financial officer ought to have a copy of this book in his office as a store of information and for the use of his staff taking their professional examinations. It is well printed and easily readable. On the whole it is quite well written. The only critical comment on the style is that occasionally, very occasionally, the authors have forgotten Sir Ernest Gowers. He is not alone in abhorring such phrases as "in this connexion" and "as compared with." G.S.

Income Tax Law and Practice. By Cecil A. Newport, F.A.C.C.A., and H. G. S. Plunkett, Barrister-at-Law. Twenty-seventh edtiion. Pp. xi+444. (*Sweet & Maxwell Ltd.:* 30s. net.)

IN THE PREFACE to the first edition of this book, published in 1927, Mr. C. A. Newport, then the sole author, stated he had observed certain principles—(*a*) that the reader was not assumed to have any previous knowledge of the subject, (*b*) the generous use of practical illustrations, (*c*) the avoidance of the use of legal jargon and (*d*) wide reference to statute and case law, together with numerous explanatory notes. On these principles the author hoped to meet the needs of both student and practitioner.

On its welcome appearance thirty years later, the twenty-seventh edition shows that these principles are still faithfully observed, with the result that although income tax law and practice have grown immeasurably in scope and complexity, the book continues to present the essentials of the subject in a clear and concise manner and is, indeed, a boon to those who today learn and practise in this field.

To the student on the threshold of his studies, taxation presents a rather frightening prospect and many coaching institutions do not give him adequate facilities for really understanding the subject, although it tends to become an increasingly important part of the syllabus of examining bodies. In this book he will find the subject explained in simple language. The practical illustrations are of great value in showing clearly the operation of the law and the manner in which answers to questions should be set out. If he applies himself to a careful study of this book the student will obtain a sound working knowledge of the subject and will be well equipped to tackle his examinations.

The book will provide the practitioner with an adequate answer to most of the problems confronting him from day to day. The many references to case law and the explanatory notes on matters of doubtful or difficult interpretation are of particular value and facilitate any necessary reference to more comprehensive works.

It is difficult to find any real shortcomings, but the inclusion of a chapter on profits tax would probably place the book quite beyond criticism. The reference on page 66 to the suspension of investment allowances after February 17, 1954, should read February 17, 1956.

While taxation legislation remains in its present complex state, all concerned with its study or administration will sincerely hope that the authors will continue to give readers the benefit of their knowledge and experience. N.D.B.R.

Books Received

Hanson's Death Duties. Supplement to December 1, 1955, to Tenth Edition. Pp. 37. (*Sweet & Maxwell, Ltd.:* 8s. 6d. net.)

A Current Digest of the Law Affecting Accountancy. Sixth edition, January 1—April 30, 1955. General Editor, Professor F. Sewell Bray, F.C.A., F.S.A.A. Digest Editor, T. W. South. Pp. 74. (*Incorporated Accountants' Research Committee, London, W.C.2:* 5s. net.)

The Private Secretary's Desk Book. By H. N. Munro, F.R.S.A., F.S.S. Pp. 164. (*Business Publications Ltd., Mercury House, Waterloo Road, London, S.E.1:* 12s. 6d. net.)

Housing Statistics, 1955–56. Pp. 81. (*Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, S.W.1:* 7s. 6d. post free.)

Welfare Services Statistics, 1955–56. Pp. 23. **Local Health Statistics, 1955–56.** Pp. 27. (*Institute of Municipal Treasurers, 1 Buckingham Place, London, S.W.1,* and *The Society of County Treasurers, Shire Hall, High Pavement, Nottingham:* 3s. each, post free.)

Children Services Statistics. Pp. 23. (*Institute of Municipal Treasurers and Accountants, London,* and *The Society of County Treasurers, Shire Hall, High Pavement, Nottingham:* 3s. post free.)

Top-Management Accounting. By T. G. Rose, F.I.I.A., M.I.MECH.E., M.I.P.E. Pp. vii+70. (*Sir Isaac Pitman & Sons Ltd.:* 9s. net.)

The Nature of Management. By H. R. Light, B.SC., F.C.I.S. Second edition. Pp. v+154. (*Sir Isaac Pitman & Sons Ltd.:* 12s 6d. net.)

First edition reviewed in ACCOUNTANCY, August, 1951 (page 312).

Banker and Customer Relationship and the Accounts of Personal Customers. By L. C. Mather, B.COM., F.C.I.S., F.I.B. Pp. 291. (*Waterlow and Sons, Ltd., 85 London Wall, London, E.C.2:* 25s. net.)

The Manual of Modern Business Equipment. Part 18, Metal Equipment for Office and Works. Pp. 32. Part 19, Steel Office Furniture, Pp. 28. Part 20, Ancillary Machines and Equipment for Shops, Offices and Works, Pp. 60. Part 21, Mail Room Equipment, Pp. 22. Prepared by the Office Appliance and Business Equipment Trades Association. (*Macdonald & Evans, Ltd., 8 John Adam Street, London, W.C.1:* 4s. 6d. each part. When completed (25 parts) the cost for the set will be £5 5s.) See review in ACCOUNTANCY, March, 1956 (page 104).

Ambulance Service Statistics, 1955/1956. (*Institute of Municipal Treasurers and Accountants, London, and The Society of County Treasurers, Shire Hall, High Pavement, Nottingham:* 3s. post free.)

Compilation of the Legal Provisions, Regulations, Circulars and Forms relating to Double Taxation Relief in the United Kingdom of Great Britain and Northern Ireland. With an illustrated introduction by F. E. Koch and Richard Moss. Pp. 160. (*International Bureau of Fiscal Documentation, Herengracht 195, Amsterdam (C), Holland:* 17s. net.)

Restrictive Trade Practices—The Business Man's Guide to the Act. By K. C. Johnson-Davis, M.A., T.D., Barrister-at-Law, and R. D. Harington, Barrister-at-Law. Pp. 205. (*Macdonald & Evans, Ltd.* 25s. net)

M.A.C. Morgan Automatic Computer. Pp. 129. (*The Morgan Crucible Co., Ltd., Battersea Church Road, London, S.W.11.*)

Footwear Costing

As briefly reported in a Professional Note in our March issue (pages 98/99), a luncheon was held at the Connaught Rooms, London, W.C.2, on February 26, by the Incorporated Federated Associations of Boot and Shoe Manufacturers of Great Britain and Ireland to mark the publication, by the Federated Associations jointly with The Society of Incorporated Accountants, of the *Manual of Cost Accounting in the Footwear Industry*. The book is reviewed on page 181 of this issue.

The chairman at the luncheon was Mr. T. Eatough, President of the Incorporated Federated Associations of Boot and Shoe Manufacturers.

Mr. Frank E. Webb, A.C.W.A., chairman of the joint costings committee that was responsible for compilation of the *Manual*, recalled that soon after the war the Research Sub-Committee of the Leicester District Society of Incorporated Accountants approached manufacturers, inviting them to co-operate in producing a costings manual for the industry. The Joint Costings Committee was appointed in 1947, and its public-spirited members had given much time, thought, knowledge and energy to the research involved. For the editorial work they were deeply indebted to Mr. David Bedford Smith, M.B.E., F.C.A., and to Mr. George Thompson, A.S.A.A. The book had been built up to be of the utmost practical use.

Mr. Webb then announced that he had given £1,000 to a prize fund, to be administered by the British Boot and Shoe Institution, from which prizes of £100 would be awarded periodically over the next twenty years to writers of theses on some aspect of boot and shoe cost and management accounting. (Particulars were given on page 99 of ACCOUNTANCY for March.)

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society of Incorporated Accountants) said that it was in the ascertainment and the control of waste that cost accounting could play such an important part. A not insignificant addition to the profits of most enterprises could be made if avoidable waste were eliminated or materially reduced.

This elimination of waste was also a matter of national importance. We could not afford to be prodigal with our limited resources—we must be prepared to meet competition, whether it be in price, quality or services, and all must prepare for the advent of a European free trade area.

Competition, other than that which was vicious with intent to ruin, was a healthy feature in all forms of society. No one desired to lower the standard of living or to reduce the sums paid as earnings—he repeated, earnings—but to compete effectively it was necessary that costs should be as low as possible consistent with the moral obligations of industry to its workpeople and to the community at large.

This meant that they must know quickly the costs of production, selling and administration at reasonable intervals during the year, and at the same time have information on the funds employed in both fixed and current assets.

The admirable *Manual* now published, the work of many over quite a long time, could help enormously those who were prepared to tackle the problem and to provide themselves with information on the cost of particular products—information so necessary in reviewing selling prices and margins. He warmly commended the book to all members of the industry, in the certain belief that profit would accrue to the users.

Mr. D. R. Bedford Smith, M.B.E., F.C.A., said that it has been a great privilege to take a part in the compilation of the *Manual*. It reinforced opinions already expressed on the priority to be given to standard costing, while standard hours should be regarded as an aid to standard costing but not an essential pre-requisite. He believed the book would be a useful acquisition for accountants in practice and in industry—even in industries other than the shoe trade. Perhaps it might give a lead for similar works relating to other industries.

Mr. Smith announced the subject for the first thesis for the Frank Webb Award: "Comparison of alternative types and methods of footwear production or production units in terms of cost and efficiency."

Legal Notes

Contract or Tort—

Whether Payment Made on Account or in Full Settlement of a Claim.

When one party admits that some money is owing to another but he disputes the amount, he frequently makes some payment to his creditor, and it is often a matter of doubt whether this payment is made and accepted in full satisfaction of the debt or merely on account. In **Neuchatel Asphalte Co. Ltd. v. Barnett** [1957] 1 W.L.R. 356, a dispute had arisen over the amount due from B. for work done and materials supplied. B. then sent a letter to N. Ltd.: "With further reference to account, in spite of repeated requests for allowance to which I am entitled, you have failed to advise me in this matter. I am therefore enclosing my further cheque for £75 in respect of this work." On the back of the cheque were typed the words: "In full and final settlement of account, dated . . . signed." The company signed the cheque on the back and paid it into its account, and when it sued B. for the balance which it alleged to be owing he took the preliminary point that the company had accepted the cheque in final settlement and could not sue for anything more. The Court of Appeal held that the covering letter and some other circumstances afforded evidence on which the County Court Judge had been entitled to find that the cheque was accepted on account and not in final settlement.

Executorship Law and Trusts—

Construction of Will

In re Quibell deceased [1957] W.L.R. 186 was a triumph for commonsense. Q. carried on business as a chemist. By his will he bequeathed the business and the premises where it was conducted to trustees with directions that they should form the business into a private company and that they should hold the shares upon trust for his wife for life, then for his daughter for life and then upon certain other trusts. Q. later executed a codicil directing that the premises and the shares should, after his wife's death, be held in trust for his daughter absolutely.

Subsequently Q. himself formed his business into a private company and his daughter, who was a qualified pharmacist, took an active part in the business.

After the death of Q. and his wife the question arose whether Q.'s shares in the business passed to his daughter under the codicil or whether they formed part of his residuary estate. Vaisey, J., held that it made no practical difference that the company had been formed by Q. himself and not by his trustees after his death, and that in the circumstances of the case it was clear that the testator intended the shares to pass to his daughter.

Executorship Law and Trusts—

Meaning of "Ordinary Preferred Shares"

Under a resettlement which followed a well-known precedent a settlor authorised his trustees to invest, *inter alia*, in "ordinary preferred stock or shares but not in deferred stock or shares." In **Re Powell-Cotton's Resettlement** [1957] 2 W.L.R. 328, the trustees asked the Court whether the term "ordinary preferred stock or shares" meant (*a*) ordinary or preferred stock or shares or (*b*) preferred ordinary stock or shares. The Court held that (*b*) was the right meaning.

Miscellaneous—

Relief from Rates

Before the 1956 revaluation many rating authorities gave unofficial relief to organisations that could loosely be described as "charitable" by assessing their properties at a low figure. In the Rating and Valuation (Miscellaneous Provisions) Act, 1955, Parliament regularised this position by providing that, although all hereditaments must be assessed at the proper figure, some relief in the rate payable was to be given to the occupiers of certain hereditaments. By Section 8 (1) (*a*) this relief must be given to "any hereditament occupied for the purposes of an organisation (whether corporate or unincorporate) which is not established or conducted for profit and whose main objects are charitable or are otherwise concerned with the advancement of religion, education or social welfare." No definition is provided of "social welfare," but some light on its meaning has now been given by the Divisional Court in **National Deposit Friendly Society Trustees v. Skegness Urban District Council** [1957] 2 W.L.R. 322. The Court held that this friendly society, however admirable its work might be, was not primarily concerned with "social welfare," because the benefits provided were confined to those who became members of the society and who paid the appropriate contributions. The society was carrying on a mutual insurance business: this was not "social welfare," which must include an eleemosynary element.

Miscellaneous—

Compulsory Purchase Price

In **Harvey v. Crawley Development Corporation** [1957] 2 W.L.R. 332, the Corporation had expressed the intention of acquiring a house which was owned and occupied by H., and H. agreed to sell the house for the sum that she would be entitled to receive upon a compulsory purchase. It was common ground that under this agreement H. was entitled to receive the value of the house with vacant possession, surveyor's fees and legal costs in connection with the sale and the expenses of removal to other premises. A dispute arose over other items which H. claimed to be due to her as compensation for disturbance: legal costs, stamp duty, surveyor's fees and personal travelling expenses in connection with the purchase of a new house. The Court of Appeal held that H. was entitled to all these items, as they were expenses which she had reasonably incurred as a direct result of having to sell her original home. The Court, however, pointed out that this principle should not be carried too far and that it would probably apply only to an owner-occupier; a landlord who held a house as an investment could not recover the cost of reinvesting the money received as the compulsory purchase price.

Another case recently decided in favour of the claimant was **Personal Representatives of Tull, deceased, v. Secretary of State for Air** [1957] 2 W.L.R. 346, in which a licensed public house was acquired. It is well established that in the ordinary course of events the acquiring authority would have to pay the value of the premises as a licensed house; but in this case the licence was put into suspense, which meant that subject to the consent of the Justices it might on some future occasion be transferred to other premises. The acquiring authority contended that it was not bound to pay more than the value of the premises without the licence. The owner's contention was that it had to pay a further £600, which represented the difference between the value of the licence in suspense and its value when attached to the premises. The Court of Appeal held that the acquiring authority was bound to pay the full value of the licensed premises less the value of the licence in suspense, and accordingly the owners were entitled to the extra £600.

The Student's Columns

THE PROFITS TAX—I

COMPUTATION OF CHARGEABLE PROFITS

IN THIS ARTICLE will be discussed the adjustments necessary when computing the chargeable profits of a company for profits tax purposes. In ACCOUNTANCY for October, 1956 (pages 419–21) the position regarding directors' remuneration was described, so that it is not proposed to discuss that matter further.

Profits are to be computed in the first instance for the accounting period of the company. If accounts are made up for successive periods of twelve months, each of those periods is an accounting period. Otherwise, the Commissioners of Inland Revenue determine the accounting period which cannot, however, exceed twelve months. Profits tax is payable in respect of the profits of a chargeable accounting period. Except where the accounting period bridges a date when the rate of profits tax is changed, the chargeable accounting period is the same as the accounting period. Where the accounting period does bridge such a date, the periods prior to and after that date are separate chargeable accounting periods.

The profits for profits tax purposes are to be computed, with certain modifications dealt with later in this article, on principles similar to those employed when ascertaining profits for the purposes of assessment under Schedule D, Case I. The provisions of Section 137, Income Tax Act, 1952, and the relevant case law ancillary thereto, will apply. Thus when computing profits, capital losses and profits are to be ignored and appropriations of profit, depreciation, losses not connected with the trade and expenditure not wholly and exclusively laid out for the purposes of the trade cannot be charged. Income assessable under any case or schedule other than Schedule D, Case I, is deleted from the profits shown by the accounts. The initial step is, therefore, to compute the adjusted profit for income tax purposes, then to consider the modifications required for profits tax.

Illustration

From the adjoining profit and loss account for the year ended March 31, 1957, compute the Schedule D, Case I, adjusted profit.

Notes

(1) Legal charges were incurred as to £50 in respect of the renewal of a short lease; £20 for debt collection; and £30 on the issue of the mortgage.

(2) Repairs to premises include £60 for improvements to premises.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1957

	£		£
TO Salaries and National Insurance of employees other than directors	14,200	BY Gross trading profit, brought down	48,260
Rent	1,200		
Rates	960		
Light, heat and power	562		
Insurance	120		
Stationery, postage and telephone	843		
Mortgage interest (gross)	120		
Travelling and entertainment expenses	1,316		
Legal charges	100		
Repairs to premises and fittings	314		
Selling expenses	4,260		
Bad debts	2,160		
Bank interest and charges	110		
Depreciation of fixed assets	2,960		
Directors' remuneration	7,800		
Loss on sale of vehicle	250		
Expenses on issue of shares	400		
Net profit for the year	10,585		
	£48,260		£48,260

(3) The charge for bad debts is calculated as follows:

Specific bad debts written off in year ..	£260
General provision for doubtful debts ..	2,000
	2,260
Less Debt recovered previously written off as bad	100
	£2,160

(4) The net annual value of the premises is £1,400.

COMPUTATION OF ADJUSTED PROFIT FOR INCOME TAX

	£
Profit per the accounts	10,585
Expenses on issue of shares	400
Loss on sale of vehicle	250
Depreciation of fixed assets	2,960
General provision for bad debts	2,000
Improvements to premises	60
Legal charges	30
Mortgage interest	120
Rent	1,200
	17,605
Less Net annual value	1,400
Adjusted profit for income tax purposes ..	£16,205

Having computed the "income tax" profit of £16,205, it is necessary to effect the modifications required under the provisions relating to the profits tax. The modifications are:

(*a*) Annual payments cannot be deducted in computing the profits for income tax, but will be allowed as a deduction for profits tax unless paid to a director of a director-controlled company, who is not a whole-time service director.

(*b*) The annual value of the premises occupied cannot be deducted for profits tax.

(*c*) As indicated in the article in the issue of last October, the allowable directors' remuneration is restricted for profits tax only if the company is director-controlled. If the company is not director-controlled, the profits tax and income tax position is identical; the full amount charged in the accounts is allowable providing it is laid out wholly and exclusively for the purposes of the business—for example, directors' remuneration paid to a two-year-old baby would be disallowed.

(*d*) For profits tax the proportion of profit earned in the period must be included when valuing work-in-progress.

(*e*) Capital allowances cannot be deducted in computing the Schedule D adjusted profit, but are allowed in computing the adjusted profit for profits tax. Readers will recall that capital allowances are given in respect of a year of assessment. The basis period used, when ascertaining such allowances, will be an accounting period or part thereof, but it must not be forgotten that the allowances are for a year of assessment. Few companies make up their accounts annually to April 5. It is provided, therefore, that the amount, or an appropriate proportion thereof, of:

(i) Initial, annual and balancing allowances under the Income Tax Act, 1952:
(ii) Scientific research allowances; and
(iii) Allowances under Section 314, Income Tax Act, 1952;

given for any year of assessment may be deducted in computing the profits of any accounting period any part of which falls within that year of assessment. If the accounting period and year of assessment are coterminous, the full amount of the above allowances for that year will be charged in computing the profits of the accounting period. If not, the capital allowances are apportioned on a time basis over the accounting periods falling into the year of assessment—for example, capital allowances are given for 1956/57 and accounts are made up to December 31 in each year. Three-quarters of the allowances may be deducted in computing the profits for the year to December 31, 1956, and one quarter in arriving at those for the year to December 31, 1957. Balancing charges are apportioned to accounting periods in like manner, but investment allowances are deducted in full in calculating the profits of the accounting period in which is incurred the expenditure in respect of which the investment allowances are given. Assuming, therefore, that the company whose profit and loss account is shown above is not director-controlled, the computation of profits for profits tax would be as follows:

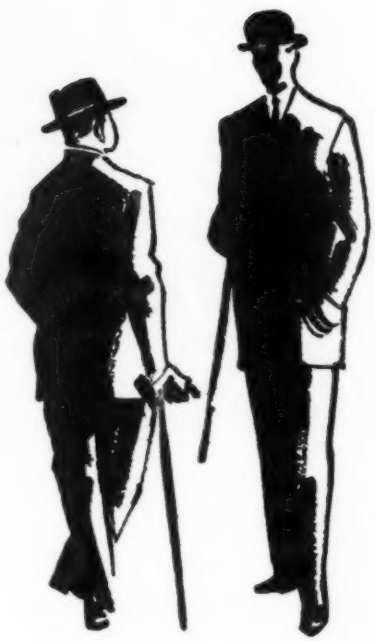
COMPUTATION OF PROFITS FOR PURPOSES OF PROFITS TAX

		£
Adjusted profit as above		16,205
Net annual value		1,400
		17,605
Less: Rent	1,200	
Mortgage interest	120	
Capital allowances:		
Initial allowance, 1956/57	1,200	
Investment allowance on expenditure on insulating against loss of heat, 31.1.57	800	
Annual allowances, 1956/57	2,710	
Balancing allowances, 1956/57	1,000	
		7,030
		£10,575

(*Note*—The figures for capital allowances have been assumed.)

However, the profits are less than £12,000. In these circumstances an abatement of one-fifth of the excess of £12,000 over £10,575, or £285, may be deducted in arriving at the chargeable profits. The chargeable profits will become:

Owing to pressure upon space it has been necessary to hold over the usual student's article on a non-tax subject.



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TGA FSA/1

	£
Profits as above	10,575
Less abatement $\frac{12,000-10,575}{5}$ = ...	285
Chargeable profits	£10,290

In the above computations it has been assumed that the company had no investment income. If it had, such income must be included in the chargeable profits unless it was possible to prove the income did not arise from the trade of the company or the person carrying on the trade was not beneficially entitled to the income or the sums received were franked investment income. The term "franked investment income" is applied to income received by way of dividend or distribution of profits from a body corporate which is liable to pay profits tax. The concern paying the dividend or making the distribution need not itself pay profits tax on the profits out of which the dividend or distribution is made, but must be within the charge to profits tax. If the company whose tax computations have been illustrated had received a gross dividend from an United Kingdom company of £425, the income tax computation would remain unchanged, but the profits tax computation would become:

	£
Profits as above	10,575
Add Franked investment income	425
Profits including franked investment income ..	£11,000
Profits excluding franked investment income ..	10,575
Less Abatement $\frac{10,575}{11,000} \times \frac{12,000-11,000}{5}$ =	192
Chargeable profits	£10,383

In a further article, the computation of the profits tax liability will be discussed.

THE HERD BASIS

In the illustration at the end of the article in our March issue (page 149), the profit on the ten ewes not replaced £200, should appear instead of the sale price of £600. The total profit is therefore reduced to £20.

Notices

The eleventh **International Management Congress** will be held in Paris from June 24 to 28. Senior executives from twenty-seven countries will consider the general theme of "Concrete achievements in the field of scientific management and future prospects in the light of technical and social developments." The main sessions will be devoted to eleven subjects. The British delegation will be responsible for a session on *The exchange of information between trade associations, firms and government departments*. Its general rapporteur will be Professor F. Sewell Bray, F.C.A., F.S.A.A., Stamp-Martin Professor of Accounting, who is chairman of a British Institute of Management group now making a world-wide study of the subject.

An **Instruments, Electronics and Automation** Conference and Exhibition will be held at Olympia, London, from May 7 to 17. Two hundred British manufacturers will exhibit their products, which will include a wide range of computers for industrial, commercial and scientific use, as well as telecommunications, radar and navigational aids and medical and other instruments. The conference will be held simultaneously in the same building, and admission will be by ticket obtainable at the exhibition information office. The subjects of some of the papers are: *The Electronic Office*, *Computer Controller Machines*, and *Electronics in Banking*. The exhibition and conference are promoted by five trade associations, and the organisers are Industrial Exhibitions Ltd., 9 Argyll Street, London, W.1.

A new sales ledger system has been devised by **Cakebread Ltd.** for saving time and labour in handwritten accounts. Entries are made at one writing on the statement, ledger card and day book summary sheet. Correct alignment is secured by the use of a peg board, perforations on the documents fitting over a vertical line of pins on the board. It is claimed that errors are thus minimised, and at any time the accuracy of entries can be proved to date, so that there need be no delay in sending out statements at the end of the month. Two standard layouts are available, and statements are overprinted with the customer's name and address. Binders can be supplied for storing ledger cards and day book summaries. There is a similar system for the purchase ledger.

Courses in Work Study and other management subjects are held regularly by the Industrial Engineering Department of the Loughborough College of Technology. The two existing short courses—on management appreciation, lasting two days, and on staff appreciation, lasting one week—will continue unchanged. The main course occupies ten weeks: this will still be available as a coherent whole, but from the summer term it will be divided into six self-contained courses, two of three weeks each and four of one week.

The first issue has appeared of **The Index of Technical Articles.** This is a classified list, to be published monthly, of articles contained in British technical periodicals—including those dealing with commerce, accountancy, finance, management and organisation. The Index is published by Iota Services Ltd., 38 Farringdon Street, London, E.C.4, at a yearly subscription of £6 6s., or at 10s. 6d. for a single copy.

The Solarton ERA, or **Electronic Reading Automaton**, recently demonstrated for the first time, can read printed or typed matter from documents at the rate of 120 characters per second, to be increased up to 500 characters. It is designed to prepare material for electronic data processing machines, which at present can work 1,000 times as fast as an operator can prepare material to be fed to them on punched cards or tapes. ERA works by means of a flying spot scanner, which records the predominance of black or of white in each of 100 tiny squares for each letter or figure in order to identify it. An enormous number of readings is taken of each character, in order to overcome the difficulties of varying type faces and of blurred, defective and misaligned type. Thus no special type face is required. The machine can be used to transfer information into punched card or tape form, or to feed it directly into a computer.

The sixth **Electrical Engineers Exhibition** will be held at Earl's Court from April 9 to 13. More than 380 exhibitors will show all types of electrical and associated equipment. The exhibition is for the trade and is not open to the public, but members and students of the Society of Incorporated Accountants who wish to attend can obtain complimentary tickets on application to the Secretary of the Society.

THE SOCIETY OF
Incorporated Accountants

Extraordinary General Meeting

AN EXTRAORDINARY general meeting of the Society was held at Incorporated Accountants' Hall on March 5. The chair was occupied by the President, Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A.

The President observed that he need not take up much of their time, because the notes that accompanied the notice of the meeting set out in some detail the purposes and the scope of the proposed alterations in the Society's Articles of Association. These proposed alterations had three main purposes: firstly, to ensure that members of the Society overseas should have an adequate opportunity of voting on matters submitted to members in general meeting: that was the object of the proposed alterations to Articles 17, 111, 112 and 136; secondly, to set out in greater detail in Articles 120 and 121 the procedure to be followed in connection with the postal vote that was required on a poll; and thirdly, to clarify the manner in which proxy votes were to be given on a poll. These alterations were in Articles 125 and 126.

The President said the Council commended the amendments to members for their approval.

He stressed that the proposals for the integration of the Society with the English, Scottish and Irish Institutes of Chartered Accountants were not open for discussion that afternoon. That opportunity would, he hoped, come later, but the date of the Society's extraordinary general meeting to consider the integration proposals could not yet be fixed.

Since the resolution was a long one he hoped they would agree to take it as read, particularly as it had been in their hands for three weeks. This was agreed. The President then formally moved, as a special resolution, the resolution set out in the notice convening the meeting.

The Vice-President (Mr. Edward Baldry, F.S.A.A.) seconded the resolution.

The President declared the meeting open for discussion. As none of the members present rose to speak, he put the resolution to the meeting, and it was carried unanimously.

Mr. A. C. Simmonds, F.S.A.A., proposed a vote of thanks to the President for presiding at the meeting. This was carried by acclamation.

Money and Measurement

THE INCORPORATED ACCOUNTANTS' District Society of Leicestershire and Northamptonshire held a dinner at the Grand Hotel, Leicester, on February 22.

Mr. David Sirkin, F.S.A.A. (President of the District Society) was in the chair, and among the guests were the Lord Mayor of Leicester (Alderman A. Halkyard), the High Bailiff (Dr. W. E. Howell), Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society of Incorporated Accountants), Sir Cecil M. Weir, K.C.M.G., K.B.E., D.L., the Very Reverend Mervyn Armstrong (Provost of Leicester), Mr. G. C. Ogden (Town Clerk), Mr. N. L. Laski, Q.C. (Recorder and Judge of the Crown Court of Liverpool), Mr. A. G. Tribe, and representatives of other professional bodies.

Mr. N. L. Laski, Q.C. (Recorder and Judge of the Crown Court of Liverpool) proposed the toast of the City of Leicester. He spoke of Leicester's great history, from the industrial as well as from the civic point of view. He paid tribute to Sir Gilbert Paull, Q.C., the former Recorder of Leicester, who had been made a Judge. He was proud to be a friend of their chairman, Mr. Sirkin.

The Lord Mayor of Leicester (Alderman A. Halkyard), in response, said they were proud of Leicester and its industries. It was also hoped that Leicester City football team would get into the First Division.

Sir Cecil Weir, K.C.M.G., K.B.E., D.L., proposing the toast of the Society of Incorporated Accountants, expressed his high respect for Sir Richard Yeabsley, its President. The effectiveness of Sir Richard's work during the war in the vital fields of price regulation and cost and contract problems was a major personal contribution to the administration of the country at that time.

The country derived many benefits from the accountancy profession, in particular from its teaching and training functions and from its sense of mission and integrity.

Their knowledge could make an immense and necessary contribution to good and efficient management and to sound pricing and costing systems. Indeed, it was unthinkable that a modern economy could survive, let alone develop, without a sufficient availability of accountants.

He himself was brought up in the leather and shoe industries. Northampton and Leicester were therefore well known to him. During the war he had had to concentrate several of the industries traditionally located in that area, such as hosiery and knitwear, and he was for a time in the Ministry of Supply, the biggest buyer Leicester and Northampton had ever known.

Every young man with initiative, enterprise and ambition should learn a trade or profession. Better a thin time financially during a vital period of learning than a thin time for the rest of his life through impatience with the grind that was called for.

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society of Incorporated Accountants) responded. He said that much progress had been made from the use of the Roman numerals formed from letters of the alphabet, although in the measurement of time we still perpetuated the Babylonian system of numbers based on sixty. The figures now in use came to Europe about a thousand years ago from the Hindus and were first used in this country about four hundred years ago.

Some nations had with advantage developed the decimal system, but here we still used the old complicated and time wasting methods of expressing money, weight, length and volume. It was, he felt, fast becoming evident that the lowest unit of our coinage could be raised to threepence, or perhaps 2.4 pence. The present system resulted in a mass of metal in circulation, involving substantial handling and allied problems.

He wondered sometimes whether a certain politician might have had some justification for saying that monetary terms were meaningless symbols. Many would agree that in certain cases a monetary sum was an inadequate expression of what it was intended to

convey, or did not convey that which might be most useful in the context. The aggregation of monetary sums attributed to assets in a balance sheet was necessary for that purpose but was only justified by the conventions adopted—in terms of value in use or in exchange the total was meaningless.

The accounts of many companies were now accompanied by statistical tables giving a wealth of information in terms best suited to convey magnitude or performance, such as time, length, weight or a combination of them. These were unaffected by changes in monetary values and could provide indices or standards of almost universal application.

It must be borne in mind that oversimplification might result in wrong impressions being drawn. He had in mind the indiscriminate use of percentages and averages: they realised how widely different could be the mean, the medium and the mode. A simple illustration was the story of the common cold: it was said that proper treatment would cure a cold in seven days, but left to itself a cold would hang on for a week.

They were all well aware of the ravages on the financial and, indeed, social economy occasioned by inflation. What could they do about it? Exhortations to produce and save more were all very well, and the effect would be significant if all the people did so. However, they didn't or they couldn't, and there was the rub. It was the effect of loss of purchasing power on savings that was so disturbing and that constituted a national problem.

They would all recall the statement of the Council of the Society at the end of 1953 on the subject of accounting in periods of changing price levels, and they had noted the contribution all could make in regard to accounts with which they were associated. This went part of the way, but had there been brought home to all concerned the full implications of inflation, in particular in the ascertainment of profit for a period in which there had been a significant change in the rate of inflation?

They were all familiar with the methods adopted for evaluating stock in trade for accounting purposes and with their effect upon the profits disclosed. They knew that these profits were used for determining the dividends to be distributed and as a basis for the ascertainment of taxation payable.

Was it realised that at least in some cases the profits stated, though arrived at on a conventional basis, did not represent accretions to what some would regard as real wealth and that taxes levied thereon, it might well be argued, constituted a capital levy?

They were aware of the present legal position for tax purposes of what was described as the base stock method. They had noted with some satisfaction the findings on this subject by the Royal Commission on the Taxation of Profits and Income—but he would repeat the closing words of paragraph 479 of its report:

> What we are seeking to do is to put the treatment of stock in the computation of business profits on a more rational basis than it rests upon at present; and until that is done estimates of "loss" of tax seem somewhat to beg the real question.

That report was published eighteen months ago—what was being done about it? He submitted that it was high time for industry and the profession to make strong representations on the subject of valuation of stock for tax purposes and to ensure, so far as was practicable, that the profits disclosed had been earned in the real sense and that the sums paid thereout, whether by way of tax or as dividends, did not render the company concerned worse off in terms of real wealth than it was at the beginning of the year.

Mr. David Sirkin, F.S.A.A. (President of the District Society) proposed the toast of the guests, to which Mr. A. G. Tribe responded.

Truth

THE BIENNIAL DINNER of the Incorporated Accountants' District Society of Sheffield was held at the Royal Victoria Hotel, Sheffield, on February 13. Mr. William Kirkham, F.S.A.A., President of the District Society, occupied the chair. The company included the Lord Mayor of Sheffield (Alderman Robert Neill, M.I.MECH.E., J.P.); Mr. R. P. Phillips (immediate Past Master Cutler); Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society of Incorporated Accountants); Colonel C. R. Hodgson, D.S.O. (President of the Sheffield Chamber of Commerce); His Honour Judge E. Ould; the Deputy Mayor of Chesterfield (Alderman H. C. Day, F.C.A.); and representatives of other professional bodies and of the Inland Revenue.

Mr. William Kirkham, President of the District Society, proposing the toast "The City and Trade of Sheffield," said full employment in the city in the past twenty years had been caused by the preparation for war, the fighting of war, the reconstruction after it, and preparedness for the eventuality of another one. If economy in defence expenditure were effected it would be a blow to the trade of the city. It would also represent a challenge. He was optimistic enough to think that the tremendous reconstruction that had taken place in the trade of Sheffield in the past ten years or so would enable them to fill up the gap. The best way to do it would be by increasing export trade. If they could do that the city could play a greater part in national economy than ever before.

The Lord Mayor of Sheffield (Alderman Robert Neill), who responded to the toast, said that Sheffield had a great future and he did not believe that the city depended on war production.

The city council was making room for factories to expand by pulling down houses and giving the people in them somewhere else to live. But he thought large concerns should provide some homes for their workers. It would be a tragic thing if the council became the only landlord in the city.

Mr. R. P. Phillips (Master Cutler), proposing the toast of the Society of Incorporated Accountants, said that in these days of unremitting pressure of taxation, one could not help feeling about accountants as one felt about one's doctor. They were excellent people, to be called upon in times of difficulty and distress. He hoped there would soon be changes in taxes—particularly in surtax, with its instance at the quite unrealistic level of £2,000 a year, and in death duties. They provided a complete disincentive to any sort of effort. They could be eased to a considerable extent with no effect on the country's income or economic stability.

On the proposed integration of the Society with the Institutes of Chartered Accountants, Mr. Phillips considered that anything tending to simplify the structure of the profession, and lead to an even higher standard of professional work, would be welcomed by business as a whole. There was also strength in numbers: the combined strength would form a very formidable body.

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society of Incorporated Accountants) responded. Having regard, he said, to the Latin inscription on the badge of the Society which it was his honour to wear, Incorporated Accountants were particularly conscious of the quality of being true

and of expressing the truth. That quality was a fundamental feature of their ethics and of their standing in the eyes of the community. But, as Byron said, truth was always strange—stranger than fiction. While truth was the statement of facts, it was necessary that it be presented fairly. They were all familiar with the duty now placed upon the auditor to report whether company accounts gave a true and fair view. It was quite clear that a statement of the facts might not be sufficient: the facts must be presented not only in a manner in which they could be understood, but in such a manner that the obvious conclusions and deductions to be drawn from them by persons of average intelligence were likely to be reasonable and to be those that might be drawn if they had full knowledge of the facts available to those who produced and were responsible for the statement of accounts.

In another context, they must be true also to themselves, to their colleagues in the profession, to their country and to their faith. While as humans they could not be perfect, they were ever mindful of their objective to do that which was lawful and right and worthy of their great heritage.

It was right that they should have a lively mind, but this did not mean an elastic conscience. They were required to use their skill, based on the knowledge gained through education and experience, for the benefit of their clients and to their own financial advantage. They provided expert service, circumscribed by a full and proper regard for the law and professional ethics. Their success was not in finding ways round, discovering loopholes, using meaningless terminology or skating on thin ice. They had a nobler task—the rendering of service—and the rendering of service was the measure of success in much more than the accountancy profession.

They would recall what Shakespeare wrote in *Hamlet:*

> This above all: to thine own self be true,
> And it must follow, as the night the day,
> Thou canst not then be false to any man.

In that worthy city, he might add: be true as steel.

Mr. E. R. Birley, F.S.A.A. (Vice-President of the District Society) proposed the toast of the guests, which was acknowledged by Colonel C. R. Hodgson, D.S.O., President of Sheffield Chamber of Commerce. Mr. Walter E. Moore, F.S.A.A. (past-President of the District Society) proposed the toast of the chairman.

Criticism and Action

A DINNER was held by the Incorporated Accountants' District Society of East Anglia in the Town Hall, King's Lynn, Norfolk, on March 1. The chair was occupied by the President of the District Society, Mr. J. C. Thornley, F.S.A.A., and the company included The Rt. Hon. Lord Evershed (Master of the Rolls); Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society of Incorporated Accountants); Mr. C. H. Sutton, F.S.A.A. (Sheriff of Norwich and a member of the Council of the Society); the Mayor of King's Lynn (Mr. E. A. Anderson); Alderman J. H. Catleugh, O.B.E., J.P.; Mr. E. W. Gocher (Town Clerk of King's Lynn); and many representatives of the professions, trade and agriculture in East Anglia.

Mr. J. C. Thornley, F.S.A.A., President of the East Anglian Society, said that in view of the integration proposals the dinner that evening might be the last to be held by them, and he hoped that everyone present might recall that occasion with pleasure. The East Anglian Society since its formation in 1929 had been the focal point for Incorporated Accountants in East Anglia to meet together on matters of professional interest and instruction. Most of the meetings had been in Norwich, but in recent years members in Cambridge, Ipswich, Colchester and Clacton had formed separate centres within the District Society and had organised their own very successful meetings. They were delighted that so many members from those centres were present that evening.

He and the other members from King's Lynn counted it a compliment that the East Anglian Society had arranged its dinner this year in their town and that so many members and guests were present.

The Rt. Hon. Lord Evershed (Master of the Rolls), proposing the toast of The Society of Incorporated Accountants, declared that in any nation true freedom was in direct proportion to the high standards and integrity of the professions. There was no doubt whatsoever that the general moral standards of business and commerce in this country depended in no small degree upon the standards and influence of the profession of accountancy.

Not so long ago he had had a visit from a distinguished Italian lawyer, who said they wished very much in his country that they had a body of professional accountants of the standing of ours, because it would make such a great difference to business morality.

Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A. (President of the Society of Incorporated Accountants), responding to the toast, said that it was an attribute peculiar to humanity to complain and criticise. At times this criticism was constructive, often otherwise, and sometimes, perhaps, it was made with little or no thought. How often did the critics ask themselves what they personally could do about it? Members might think of their District Society Committee, of the Council of the Society, or of the profession as a whole. Much was delegated by the many to the few, to those public-spirited people—the willing horses.

He would not burden them with a list of the various committees of the Council or with an outline of their terms of reference—but what a lot was taken for granted! As a rule it was only when something went wrong or some pronouncement or ruling affected them individually that they gave voice to their feelings—and then in the form of criticism. It was rather like the attendance of shareholders at company general meetings—sparse in the extreme while things were going well.

How often did they sit back and think a problem out, rather than make an *ad hoc* decision—probably rightly, possibly wrongly, but based on a convention they had been trained to accept? It was Thomas Paine who said, "It is the duty of every man, as far as his ability extends, to detect and expose delusion and error."

Was it not true that many of them individually tended to leave far too much to others? They were all in the game of life, each with a real part to play, and their obligations were not fulfilled by that form of exhortation or criticism usually associated with the spectator. Expressed approval was comforting to the recipient and criticism by one's colleagues often extremely useful. They should be active and not passive members of their great profession.

Let them consider all that had been done in the past to place the Society and the profession in the proud position it now occupied in the minds of the entire community. This was achieved only by those with high ideals who lived up to them—a token subscription was not enough. They did not spare themselves, their criticism was of self and their determination to improve the quality and extent of service.

Sir Richard urged the members not to seek loopholes in this or that piece of legislation and by tortuous means defeat the obvious spirit of the law in question.

PLEASE HELP THESE CHARITIES

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This association, which is outside the scope of the National Health Service, has accomplished much in 55 years. It devotes income from legacies and covenanted subscriptions to

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Particulars from the Secretary, *Office and Depot:*
1 RIDGEFIELD, KING STREET, MANCHESTER, 2

Gone were the days when they, too, were parties to accounts which gave little or no information, gone too, he hoped, the days of lack of candour in dealings with Inspectors of Taxes. It was not worthy of them to seek out technical loopholes in tax or company legislation and to advise clients to take advantage of them; let them respect the spirit as well as the letter of the law.

The Master of the Rolls said, in one of his judgments in 1949:

> It is also not to be forgotten, as has been said in this Court before, that if the complexity and artificiality of taxing statutes are sometimes regarded as matters of comment and criticism, the blame should be laid not so much upon Parliament and the Parliamentary draftsman as upon those private persons who have employed their ingenuity in devising elaborate schemes for avoiding taxes which would otherwise fall upon them.

Let them in all their doings be worthy of the great traditions of the Society and of the profession and by their actions both maintain and improve on their goodly heritage.

Mr. C. H. Sutton, F.S.A.A. (Sheriff of Norwich and a member of the Council of the Society of Incorporated Accountants), who proposed the toast of "The Trade and Commerce of East Anglia," said that there were automation troubles when the steam engine was invented, and East Anglia learned then not put all its eggs in one basket. In Norwich, for example, during the building boom, many of those in the shoe industry found their way into the building industry. Now building was going down they were going back to the shoe trade. That was an example of the adaptability of their people.

He was glad to say that big industrial units were still prepared to come to East Anglia.

Mr. Sutton coupled with the toast the name of Alderman J. H. Catleugh, a leading King's Lynn citizen. In these days of the multiple store it was increasingly difficult to find men who would help to run their city or town and at the same time still trade and hold a responsible position in it. To those who had done so for years they were greatly indebted.

Alderman J. H. Catleugh, O.B.E., J.P., in reply, said they were proud that Mr. Thornley, a King's Lynn man, was occupying the position of President of the East Anglia Society. He was held in high esteem and maintained to the full the traditions of the Society to which he belonged.

Industry in East Anglia did not get those upheavals seen in the large industrial centres. They did not find that antagonism between employer and employee—largely because most of their industries were smaller and they retained a personal touch.

Mr. R. H. Taylor, F.S.A.A. (Vice-President of the Incorporated Accountants' District Society of East Anglia) proposed the toast of the guests, and Dr. F. Lincoln Ralphs (Chief Education Officer, Norfolk County Council) responded.

During the evening Mr. J. C. Thornley made a presentation of a watch, suitably inscribed, to Mr. V. R. Webb, an articled clerk to Mr. Raymond Spanton, F.S.A.A., who was awarded the First Certificate of Merit and a Sir James Martin Memorial prize in the Final Examination in November, 1956.

London Dinner to Successful Final Students

THE LONDON STUDENTS' Society gave a dinner on February 28 at Incorporated Accountants' Hall to members of the Students' Society who were successful at the last Final Examination. There were about eighty members present. The President, Mr. J. A. Jackson, welcoming the guests, said that they should enjoy to the full their recent success in the difficult Final Examination of the Society—a success upon which he heartily congratulated them—because the time for enjoyment would not last! Cares and responsibilities would crowd on them, at least if they were any good! He hoped they would all find jobs that would be done a little better than they were done before. He also hoped that wherever they might be in the future they would join their local District Society of Incorporated Accountants and take a full part in its activities. In the first flush of their examination success, they would not have doubts, but a few years hence they would find that it was of great value to have fellow members who were able to help when practical difficulties arose.

Sir Richard Yeabsley, President of the parent Society, said that they had a great heritage which had been handed down over many years. The proposals for the integration of the profession might mean that the Society would cease to exist in name, but its record would live a long time because it was founded on service. The new members would find that time would provide many lessons, not least of humility. And with humility one of the connected attributes was judgment. Judgment required knowledge with wisdom.

The Chairman of the London District Society, Mr. W. J. Crafter, said that with the success that those present had had in the final examination, the London District Society, which was now the largest of all the District Societies, would increase in strength by about three per cent.

Miss R. W. Baker expressed the thanks of the successful students to the Committee of the London Students' Society for the welcome given that evening, and to the parent Society and District Society for help given during the period of study for the examinations.

District Societies and Branches

London

A VERY SUCCESSFUL dinner dance was held by the Incorporated Accountants' London and District Society on March 7 at the Park Lane Hotel.

Mr. W. J. Crafter, the Chairman of the District Society, briefly proposed the toast of the guests at the dinner, welcoming them in the words of Longfellow's *Hiawatha:*

> Never before had our tobacco
> Such a sweet and pleasant flavour
> When you come so far to see us.

Sir Richard Yeabsley, C.B.E., the President of the Society of Incorporated Accountants, responding, said that he was a guest of a peculiar kind: he was guest as President of the Society, but a host as a member of the London District Society. He said that the ladies present would know all about accountants and would not regard them, as some ladies apparently did, as those who counted the horses who had bolted and then advised how best to lock the doors of the stable. Many a wife, he added, had turned an old rake into a good lawnmower.

There were 275 members and guests present at the dinner dance. Dancing was to the music of Tommy de Rosa's band.

Dublin Students' Society

A REFRESHER COURSE will be held from April 25 to 30 at 16 St. Stephen's Green, Dublin. The lecturers will be Mr. V. S. Hockley, B.COM., C.A., A.A.C.C.A., Mr. G. L. M. Wheeler, F.C.A., A.C.I.S., Mr. R. I. Morrison, A.C.A., and Mr. L. D. McGonagle, B.A.

Applications should be sent to Mr. Edward P. Dowling, c/o 34 Dame Street, Dublin, by April 22.

Events of the Month

April 1.—*Hull:* Luncheon meeting. New Manchester Hotel, at 12.50 p.m.
London: "Tax Reliefs for Losses," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

April 2.—*Hull:* Joint Students' meeting. Y.P.I., George Street, at 6.15 p.m.

April 3.—*London:* Taxation Group meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Nottingham: "Executorship, including Preparation of an Estate Duty Account and Intestacy Rules," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. The Reform Club, Victoria Street, at 6.30 p.m.

April 5.—*Glasgow:* "The Uses of Standard Costing," by Mr. R. A. Smith, A.C.W.A. Students' meeting. Scottish College of Commerce, Pitt Street, at 6.15 p.m.
Grimsby: "Management Accounting, Standard Costing and Budgetary Control," by Mr. G. T. Walker, A.C.A. Offices of the Chamber of Commerce, 77 Victoria Street, at 4.30 p.m. and 7 p.m.
Southend-on-Sea: "Amalgamations and Reconstructions," by Mr. P. E. Harris, A.S.A.A. Students' meeting. 33 Victoria Avenue, at 7.30 p.m.

April 5–8.—*Manchester:* Students' residential refresher course. Hulme Hall, Victoria Park.

April 8.—*Coventry:* "Income Tax Losses," by Mr. J. W. Walkden, F.C.A., F.S.A.A. Rose and Crown Hotel, High Street, at 6.15 p.m.
London: "Arbitration," by Mr. R. D. Penfold, Barrister-at-Law. Students' meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

April 9.—*Stockton:* "Cost Accounting," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Spark's Café, High Street, at 6.30 p.m.

April 10.—*London:* "The Budget and its Effect on Industry." Management group meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.
Newcastle upon Tyne: "Standard Costing," by Mr. W. W. Bigg, F.C.A., F.S.A.A. Library, 52 Grainger Street, at 6.15 p.m.

April 11.—*Bradford:* "Elements of English Law," by Mr. J. F. Meyers, M.A., LL.B. Victoria Hotel, at 6.15 p.m.
Cardiff: "Some Current Taxation Problems," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A. Park Hotel, at 7 p.m.
Hull: "Consolidated Accounts," by Mr. K. S. Carmichael, A.C.A. Students' meeting. Church Institute, Albion Street, at 6.15 p.m.

April 12.—*Blackpool:* "Liquidations and Receiverships," by Mr. R. D. Penfold, Barrister-at-Law. Jenkinson's Café, Talbot Square, at 7.30 p.m.
Worcester: "The Auditor and Mechanised Accounting," by Mr. A. C. Simmonds, F.S.A.A. Crown Hotel, Broad Street, at 6.30 p.m.

April 19.—*Cambridge:* The meeting and informal dinner which were to have been held on this date have been postponed.

April 24.—*Belfast:* Students' annual general meeting. Presbyterian Hostel, at 7 p.m.

April 25–30.—*Dublin:* Students' refresher course. 16 St. Stephen's Green.

April 26.—*Birmingham:* "Some Aspects of Auditing," by Mr. W. W. Bigg, F.C.A., F.C.A.A. Law Library, Temple Street, at 6.15 p.m.

Liverpool: "Consolidated Group Accounts" and "Standard Costs," by Mr. W. J. Fedrick, A.C.A. Pre-examination lectures for Final students. Incorporated Accountants' Hall, Derby Square, at 10 a.m. and 2 p.m.

April 26-29.—*Berkhamstead:* London Students' Society pre-examination courses. Ashridge College.

April 29.—*Coventry:* Annual meeting of the Coventry Branch of the Birmingham District Society. Rose and Crown Hotel, at 6.15 p.m.
Dublin: "Management Accounting," by Mr. V. S. Hockley, B.COM., C.A., A.A.C.C.A. Students' meeting. Presbyterian Association, 16 St. Stephen's Green, at 7.30 p.m.

May 1.—*London:* Taxation Group meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

May 3.—*Glasgow:* Students' annual meeting. Scottish College of Commerce, Pitt Street, at 6.15 p.m.
Liverpool: "Some Points in Executorship, Hire Purchase and Group Accounts," by Mr. W. J. Fedrick, A.C.A. Pre-examination lectures for Final students. Incorporated Accountants' Hall, Derby Square, at 10 a.m. and 2 p.m.

May 3–4.—*Belfast:* Pre-examination course, conducted by Mr. K. S. Carmichael, A.C.A.

May 6.—*Hull:* Luncheon meeting. New Manchester Hotel, at 12.50 p.m.

Membership

THE FOLLOWING PROMOTIONS in, and additions to, the membership of the Society have been completed during the period December 7, 1956, to March 8, 1957.

Associates to Fellows

BOOHAN, Daniel Ernest (*Edwin G. Pulsford & Co.*). Poole. DAWSON, Charles Hugh (*Walter Hunter, Bartlett, Thomas & Co.*), Bassaleg. FORBES, Wyndham Kinloch (*Barker, Bellhouse & Co.*), Nakuru. FREEMAN, Eric Wilfred Pallant (*Barnes, Freeman & Co.*), Lowestoft. GIBSON, John Wilfred (*Brodie, Gibson & Co.*), Hull. HOARE, Ronald Henry John (*Marshall, Hoare & Chandler*), Guernsey. HUNKIN, John Llewellyn (*Jennings & Watkins*), Neath. HUSTWICK, John Brian (*Wade Hustwick & Sons*), Bradford. MONTAGUE, Frank Moldram (*Edwin G. Pulsford & Co.*), Poole. PULSFORD, Harold George (*Edwin G. Pulsford & Co.*), Poole. PYLE, Barry John Lear (*James Christie & Co.*), Truro. SANDERSON, John Leonard, Bury St Edmunds. SINCLAIR, Miss Margaret (*Beatton, Hewson & Co.*), London. WEBSTER, Frank, with Thomas & Evans Ltd., Porth. WOOD, Albert Edmund (*Thompson & Wood*), Hereford.

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ROGERS, Frederick George, with Milne, Gregg & Turnbull, London. RYDING, Anthony, with Mountain, Jessap & Co., Skegness. SACKS, Arnold Lionel, formerly with H. A. Olsen, Holman, Garsh & Co., Johannesburg. SALT, Malcolm Ross, with F. Stokes & Ricks, Nottingham. SAPPER, Peter Michael, Board of Trade, London. SAVAGE, Paul Stephen Gladstone, with Baldwin & Son, Brighton. SCHWIER, Gerald Charles, with Jackson, Pixley & Co., London. SEAMAN, Ronald Keith, B.SC., with C. J. Ryland & Co., Bristol. SHAW, Malcolm Selwyn, with Price Waterhouse & Co., Birmingham. SHERBURN, Joseph Barry, with T. Watson, Leeds. SHERRAT, Charles John,

with A. Ewart Turner & Co., Newcastle, Staffs. SHUTT, Neville Richard, with Murray Smith, Berend & Noyce, Durban. SIMS, Neville William, with Phillips & Trump, Cardiff. SKYLING, Thomas Ernest, with Ford, Rhodes, Williams & Co., London. SMITH, Brian Ernest, with Brown, Peet & Tilley, London. SMITH, George Norman, with Clarkson, Hyde & Co., London. SMOLENSKY, Derek Warren, with Wolpert & Abrahams, Durban. SMYTH, Derek, with H. V. Kirk, Palmer & Co., Belfast. STAINER, John Henry, with Edwards & Edwards, Dorchester. STEAD, George, with Wheawill & Sudworth, Huddersfield. STEPHENS, Geoffrey Ralph, with Whitaker & Redfearn, Penzance. STOCKTON, Geoffrey, with Smailes, Holtby & Gray, Hull. STONE, Hubert Michael, with Brown, Fleming & Murray, London. STRIDE, Thomas Garnet, with Moore, Stephens & Co., London. SUGGETT, Brian, B.COM., with Eric Phillips & Co., London. TANN, Kenneth Edward (*Hatfield, Dixon, Roberts, Wright & Co.*), London. TESSEYMAN, Robert, with Richards Russam & Co., Bradford. THOMAS, Malcolm, with Armitage & Norton, Bradford. THRELFALL, James Robert, with Hibberd, Bull & Johnson, Bournemouth. TOMLINSON, Robert Brian, with Mark J. Rees, Leicester. TOSEY, Dante, B.SC., County Treasurer's Department, Stafford. TREBILCOCK, Frank, with Lodge & Winter, Truro. TRENCHARD, Brian Morris, with Ross, Jones & Co., Cardiff. TREVENA, Frederick Donald, with J. H. Waring & Co., Bolton. VAUGHAN, Douglas James, with Percy H. Walters, London. WADSWORTH, Ralph, with Thomson McLintock & Co., Birmingham. WALSH, Patrick John, with Deloitte, Plender, Griffiths & Co., Manchester. WALTERS, Ivor, with Thornton & Thornton, Oxford. WARMAN, Peter Charles, with Farrow, Bersey, Gain Vincent & Co., London. WARREN, Roy David, with Rawlinson & Hunter, London. WEISS, Alastair Martin, with Kilby & Fox, Northampton. WESTLAKE, Michael Frederick, with Pawley & Malyon, London. WHITE, Geoffrey David, formerly with Ogden, Hibberd Bull & Langton, London. WHYTE, William Scott, with Joshua Wortley & Sons, Sheffield. WIDGER, John Caisley (*Banting, Widger & Co.*), Wembley. WILBY, George William, with Carpenter, Arnold & Turner, Brighton. WILLIAMS, Allen Henry, with Cash, Stone & Co., London. WILLIAMS, Frederick Douglas, with Walter Baird & Co., Chester. WILLIAMS, Ronald, with Deloitte, Plender, Griffiths & Co., Swansea. WILSON, Alexander Robertson, B.A., with H. E. Mattinson & Partners, Durban. WILSON, John Gordon, with Saml. Edwd. Short & Co., Chesterfield. WIMPRESS, Francis Noel, with de Paula, Turner, Lake & Co., London. WOOD, Fred, with Crofts & Naylor, Manchester. WORLEY, Kathleen Mary, with Dixon, Hopkinson & Co., West Bromwich. WYSOKI, Jan Marian, B.COM., with McClelland, Ker & Co., London. YATES-MERCER, George Lewis, with Odgen, Hibberd Bull & Langton, London.

Personal Notes

Mr. C. W. Hodges, A.S.A.A., has been appointed Controller and Auditor-General to the Kenya Government and Auditor-General to the East African High Commission.

Messrs. Hatfield, Dixon, Roberts, Wright & Co., London, E.C.4, announce that Mr. K. E. Tann, A.S.A.A., who has been on their staff for a number of years, has been admitted as a partner.

Messrs. Wood, Mair & Co., Incorporated Accountants, Sunderland, have admitted to partnership Mr. C. E. Aylen, A.S.A.A.

Mr. D. R. F. Holliday, A.S.A.A., C.A.(S.A.), is now in practice under the firm name of D. R. F. Holliday & Co. at Amsterdam House, 353 West Street (P.O. Box 2815), Durban, South Africa.

Mr. D. Lomas, A.S.A.A., has been appointed accountant to Ritz Manufacturing Co. Ltd., Glossop.

Mr. S. B. Gregory, Incorporated Accountant, has commenced practice at 8 Kelso Road, Leeds, 2.

Messrs. Chas. O. Nicholson & Co., Incorporated Accountants, Sunderland, have admitted as a partner Mr. F. R. Clarke, A.S.A.A.

Mr. Sydney H. Adams, Incorporated Accountant, is now in practice at Pearl Assurance House, Eliot Street, (P.O. Box 2269), Nairobi, Kenya Colony.

Messrs. Wm. Robertshaw & Myers, Incorporated Accountants, Keighley, announce that Mr. Irvin W. Riley, A.S.A.A., Mr. R. Lupton Topham, A.S.A.A., and Mr. Jack Hodgson, A.S.A.A., have been admitted to partnership.

Messrs. Stalker, Nixon & Groves, Chartered Accountants, Newcastle upon Tyne, have admitted to partnership Mr. J. H. Groves, A.C.A., A.S.A.A.

Mr. H. Kamer, LL.B., B.SC., Incorporated Accountant, has started practice at 3 Sterndale Road, West Kensington, London, W.14.

Mr. F. S. Linden, A.S.A.A., has been appointed chief accountant to Fullers Ltd., Hammersmith, London, W.6.

Mr. F. A. Harris, A.S.A.A., has taken up an appointment as secretary/chief accountant of Cossor Investments Ltd., London, N.5.

Mr. N. W. Ramsden, A.S.A.A., is now secretary/accountant of Hinckleys Ltd. and associated companies, Sheffield.

Messrs. Harmon Smith & Co., Incorporated Accountants, have taken Mr. C. M. Joy, A.S.A.A., into partnership at their Hounslow office. The firm name at that office has been changed to Harmon Smith, Joy & Co.

Mr. H. A. Thody, A.S.A.A., has been appointed secretary/accountant to Freeman, Taylor Machines Ltd., Syston, near Leicester.

Messrs. Robt. A. Plant & Co., Incorporated Accountants, have admitted as a partner Mr. F. Shannon, A.S.A.A.

Removals

Messrs. Baker & Co., Incorporated Accountants, Walsall, advise that their address is now Arbor Chambers, 16 Broadway North, Walsall.

Mr. J. A. Friedman, C.A.(S.A.), A.S.A.A., practising as J. A. Friedman & Co., has removed his office to 607 J.B.S. Building, Church Square, Pretoria. P.O. Box 2137.

Obituary

Thomas Hately

WE REGRET TO announce the death on February 13 of Mr. Thomas Hately, F.S.A.A., a partner in Messrs. Henry Chapman, Son & Co., South Shields.

Mr. Hately qualified as an Incorporated Accountant in 1921. He was associated with his firm for forty-eight years, becoming a partner during the period of World War II.

Mr. Hately served in the Royal Field Artillery during World War I. In World War II he became Chief Warden in the South Shields Civil Defence Corps, and when the Corps was reformed in 1949 he resumed that office and held it till 1954.

He had held many lay offices in the Methodist Church, and at the time of his death was senior society steward and trust treasurer at Westoe Methodist Church. The funeral service took place there on February 16.

Norman McKellen

WE RECORD WITH regret that Mr. Norman McKellen, F.S.A.A., senior partner in Messrs. Norman McKellen & Co., Manchester, and the oldest member of the Manchester District Society, died on February 13.

Mr. McKellen became a member of the Society in 1902. He was then with Messrs. Alfred C. Deacon & Co., Manchester, but two years later he started independent practice.

He was formerly a keen supporter of District Society activities: he served as a member of the Committee from 1910 to 1927, and had previously held office as one of the Honorary Auditors.

Tom Stott

WE REGRET TO record the death on February 14 of Mr. Tom Stott, A.S.A.A., senior partner in Messrs. Forster & Stott, Incorporated Accountants, York and Thirsk.

He qualified as an Incorporated Accountant in 1922, after interrupting his training to serve during World War I in the Army Service Corps. Shortly afterwards he commenced public practice in York.

Mr. Stott was an active committee member of the York Deaf and Dumb Society. He was a member of the Minster Lodge of Freemasons.

He was keenly interested in the York Rugby League Club, and acted as treasurer of its special appeal committee.

Classified Advertisements

Two shillings and sixpence per line (average seven words). Minimum ten shillings. Box numbers one shilling extra. Replies to Box Number advertisements should be addressed Box No. . . . , c/o ACCOUNTANCY, *Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.*

THE SOCIETY'S APPOINTMENTS REGISTER
Employers who have vacancies for Incorporated Accountants on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Society's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2. Tel. Temple Bar 8822.

OFFICIAL NOTICES

ACCOUNTANTS required by the GOVERNMENT of NORTHERN NIGERIA for one tour of 12-24 months in first instance. Commencing salary according to experience in scale (including Inducement Addition) either £1,086 rising to £1,680 a year with prospect of permanency or £1,170 rising to £1,824 on temporary basis with gratuity of £150 a year. Clothing Allowance £45. Free passages for officer and wife. Assistance towards cost of children's passages *and* grant up to £288 a year for their maintenance in U.K. Liberal leave on full salary. Candidates must be members of a recognised body of professional accountants and have had appropriate experience with a firm of Accountants, a Public Company or a Local Authority. They should possess organising ability and be able to control staff. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/43424/AD.

The Nigerian Railway Corporation invites applications for appointment as

ACCOUNTANT (COST)

Salary: £800 × £50—£1,600 plus £300 p.a. Overseas Pay. Commencing salary will depend upon qualifications and experience.

Qualifications: Candidates should hold a recognised accounting qualification with not less than five years' practical experience since qualifying. Candidates will be required to introduce a procedure for budgetary control of the recurrent expenditure of the Operating Department Running Shed costs and to simplify pay procedure.

Appointments on pensionable terms, or on contract carrying a gratuity of 20% of total emoluments per annum.

Terms of service provide for tours of fifteen months each, seven days' full pay leave per month of service, free passages for officer and wife and separate domicile allowances £75 p.a. each in respect of maximum of two children while in U.K. or cost of their passages to and from Nigeria, if under 18 years of age. Part furnished quarters provided at low rental. Outfit allowance £60 payable on first appointment.

Applications to be addressed to: The London Representative, NIGERIAN RAILWAY CORPORATION, 11 Manchester Square, London, W.1.

ASSESSORS required for Investigation Branch of EAST AFRICAN INCOME TAX DEPT. on two years' probation for permanent and pensionable employment. Salary according to age and experience in scale (including Inducement Pay) £939 rising to £1,863 a year. Outfit allowance £30 in certain circumstances. Free passages. Liberal leave on full salary. Candidates, not over 45, must be members of a recognised body of professional accountants, preferably with experience of tax work. Write to the CROWN AGENTS, 4 Millbank, London, S.W.1. State age, name in block letters, full qualifications and experience and quote M1B/43770/AD.

APPOINTMENTS VACANT

£900 p.a. minimum combined salary and bonus offered by City Chartered Accountants for experienced qualified clerk with personality. Five-day week and Pension Scheme. Box No. 529, c/o ACCOUNTANCY.

A LARGE Commercial organisation trading in West Africa wishes to recruit a qualified accountant of some years' experience in auditing work for its internal audit department. The business believes in accounting methods designed to aid management and the auditors are expected to contribute to this end.

Commencing salary £1,200 per annum. Contributory pension fund and first class passages to and from Africa. Free furnished accommodation is provided.

Apply to Box No. 532, c/o ACCOUNTANCY.

A LEADING Merchant House with interests in Turkey has a vacancy for an Accountant in that country who has had several years' commercial or auditing experience. Applicants must have a sound knowledge of both written and spoken French.

Initial remuneration would depend on qualifications and experience. In addition there are generous family allowances, free Medical service and membership of Pension Fund. Tours of three years each followed by substantial leave on full pay. First class passages provided.

Apply giving full particulars to Box No. 534, c/o ACCOUNTANCY.

ACCOUNTANTS. Thomas De La Rue & Co. Ltd. require, because of their expansion programme, one or two young qualified accountants with some commercial or industrial experience. Salary range £750 upwards, depending on age and experience. The sort of experience preferred would embrace standard costing, budgetary control and other management accounting practice. A knowledge of foreign languages would be an advantage. Candidates must be prepared to travel. The positions are progressive and may lead to appointments in the provinces, or abroad. Excellent superannuation scheme. Candidates should write giving details of age, education and experience to the Chief Personnel Officer, 84/86 Regent Street, London, W.1.

ACCOUNTS CLERK

To assist Secretary of small group of Companies in South East London. Suitable for man recently qualified in secretaryship or accountancy, and seeking commercial experience. Please write full details of experience, qualification if any, and age, in confidence to The Secretary, Box No. 535, c/o ACCOUNTANCY.

APPLICANTS with the necessary experience requiring BETTER positions as Senior, Semi-senior and Junior AUDIT CLERKS should contact us We have a good selection. Other Professional and Commercial posts available. HOLMES BUREAU, 10 Queen Street, E.C.4. City 1987.

AUDIT CLERKS. Many vacancies waiting for Senior, Semi-senior or Junior. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

BUILDING SOCIETY (15 Millions Assets group) invites applications from suitably qualified and experienced men under 40 years of age for the post of Office Manager at Head Office. The one appointed must possess good personality, experience of modern office management, including machine accounting, control of staff, budgetary control and statistics. Commencing salary according to qualification and experience, with Pension Scheme. Applications, which will be treated in strict confidence, should give full details, including salary required, but original testimonials should not be sent. Write Box No. 533, c/o ACCOUNTANCY.

CITY CHARTERED ACCOUNTANTS require taxation senior in expanding tax department. Good knowledge and experience of all branches of tax essential, including sur-tax and double tax relief. Must be capable of working without supervision and of interviewing clients and Inspectors of Taxes. Permanent position, five-day week, pension scheme. Commencing salary of £1,000 p.a. plus substantial bonuses. Apply giving particulars of age and experience to Box No. 530, c/o ACCOUNTANCY.

NEWLY QUALIFIED ACCOUNTANT required for professional firm in SOUTHERN RHODESIA. Initial salary approximately £85 per month, passage paid. Write for details, quoting reference OSS.109/1, to O.T.S., 5 Welldon Crescent, Harrow, Middlesex.

NOTTINGHAM Incorporated Accountants require experienced Senior Assistant for permanent and progressive position. Write with full details to BROOME, FOXON & CO., Vernon House, Friar Lane, Nottingham.

TAXATION SPECIALIST required by City Chartered Accountants for taxation department. Applicants must have experience of all branches of taxation including a good working knowledge of double taxation and the tax problems arising on executorship and trust accounts. Permanent position, five-day week, pension scheme. Apply giving particulars of age, experience and salary required to BROWN, PEET & TILLY, 62 London Wall, E.C.2.

VACANCIES available for qualified Accountants in South America, West Indies, Rhodesia, Kenya, Far East and the Continent. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

APPOINTMENTS REQUIRED

AVAIL yourselves of our services in filling your Staff Vacancies—COMMERCIAL or PROFESSIONAL. Selected Applicants only. HOLMES BUREAU, 10 Queen Street, E.C.4. City 1978.

INDIAN Muslim Graduate (27), 3½ years' Bye-law service, seeks to continue same with U.K. city firms with prospects. Varied audit experience. £10 a week. Excellent reference. Box No. 516, c/o ACCOUNTANCY.

PRACTICES AND PARTNERSHIPS

JUNIOR PARTNERSHIP available in well established Incorporated firm, South Coast. Please state age and professional experience. Box No. 531, c/o ACCOUNTANCY.

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MISCELLANEOUS

ACCOUNTANTS' NAME PLATES engraved in Bronze with Ceramic Cream Enamel lettering. Leaflet post free with full-size proof on receipt of wording. G. MAILE & SON LTD., Engravers, 367 Euston Road, London, N.W.1 (EUSton 2938).

NAME PLATES FOR ACCOUNTANTS, in bronze, brass and plastics.—Send wording and size for free estimate and layout to ABBEY CRAFTSMEN LTD., 78 Osnaburgh Street, London, N.W.1. Tel. EUSton 5722.

OLD ESTABLISHED Building Society with high reserves and liquid funds requires additional investments to keep pace with its growing mortgage department. Applications for a limited number of investment agency appointments are invited from professional accountants. Write for particulars to Box No. 514, c/o ACCOUNTANCY.

WAKEFIELD COLLEGE OF INCOME TAXATION LIMITED offers SPECIALISED postal tuition for those who wish to SPECIALISE in Income Taxation. Course for the Associateship Examination of the Institute of Taxation. Also non-examination courses. Prospectus free from the Principal, Dept. A6, 29 Barstow Square, Wakefield.

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